ECONOMICS IN ACTION · MAY 1954

Judging from premilinary March statistics, it looks as if May rather than March will be the tip-off month for the nation's economy. So far, the major economic indicators continue to point downward, although there are some signs of a leveling off:

Unemployment, for example, showed an increase of only 54,000 in March -- the smallest rise in six months. While this is good news, it is not quite good enough. For it means that, despite the usual spring pickup in automobiles, textiles and farm labor, our economy was able to absorb only 45,000 of the 100,000 new entrants into the labor force. And, although the employment outlook for May and June is brighter, many economists are worried about what will happen in July when high school and college graduates are expected to boost the unemployment total beyond the 4,000,000 mark.

Industrial Production was down in March, but there were signs of improvement towards the end of the month. Estimates for April and May are generally optimistic. Auto production for the second quarter is slated to top the first quarter by 7% and this should boost lagging steel output, currently running at the lowest non-strike level in four years.

All in all, indications are that business won't slip much farther this year. On the other hand, neither will there be a dramatic upswing in the next four or five months.

The current sluggishness in the pace of business is going to have a direct affect on the big wage-contract negotiations slated to get underway this month:

Unions will concentrate on job security, working conditions and pension rights rather than on wide-

spread pay boosts. That means heavy pressure for across-the-board wage guarantees. With living costs headed downward, moreover, unions will steer clear of escalator clauses tying wages to purchasing power. Management, on the other hand, will be in a better bargaining position than it has been in for a long time. With customers reducing their purchases and more people out of work, management is less afraid of a shutdown, while labor is less willing to go on strike. Besides, smaller business earnings provide less room for wage concessions.

Congress, meanwhile, will probably not make any drastic revision of the Talt-Hartley Act. On the other hand, the Administration can be expected to do its utmost to stay out of labor disputes.

The outcome of these wage-contract negotiations should be a pretty good indication of how business is faring. If General Electric, for example, quickly accedes to most of the union's demands, that would mean their earnings are still high. If, however, the company makes only minor concessions, that would probably mean that business is not so good.

The big problem facing the Administration and Congress right now is to get the consumer to spend more. While top-heavy inventories are undoubtedly an important reason for production cutbacks (see page 11), many economists believe that cuts in Federal spending -- $3,000,000,000 this year, fiscal 1953-54, and another $5,300,000,000 for fiscal 1954-55 -- are an even more important factor. Obviously, business and the consumer will have to take up the slack:

Excise tax reductions on such items as furs, jewelry,

(Cont'd on page 63)

Challenge

The Magazine of Economic Affairs

Vol. 2 No. 8
May 1954

Published by
INSTITUTE OF ECONOMIC AFFAIRS
NEW YORK UNIVERSITY

Chairman Administrative Board
JOSEPH H. PARK

Executive Director and Editor
HAIG BABIAN

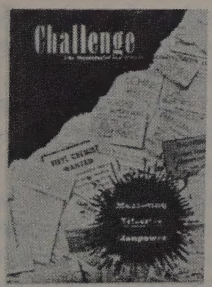
Senior Editor
JAMES C. MALONE

Production Editor
TED BERARDICELLI

Editorial Assistants
MARTIN KESSLER
ROBERT MUELLER

Business and Circulation
ARLINE FEIGEN, MGR.
LILA KINBERG
ISOBEL CHODIKOFF

Economics Consultant
DR. HAROLD F. CLARK



COVER BY WALTER FERRO

In This Issue

A Personal Note 4
from the editor

Is Business Rolling or Rocking? . . 6
the "ups" and "downs" of an economy

Behind the Price-Drop in Beef 12
"amateur speculators" drop out

Measuring Effective Manpower 17
new skills for tomorrow's jobs

Creating Capital Today 23
how investment funds are formed

Moss for the Rolling Stones 26
migrant children get a "start"

The Furor over "Discount Sales" 30
dynamic merchandisers or menace?

The Mogul and the Ivy 36
more studies for businessmen

New Markets for Antibiotics 41
animals, plants and industry

From a Load of Grindstones 45
a career in many things

The Mixup in Economic Talk 47
the "Power of Words"

Should Savers be Penalized? 52
from the rostrum

Frontiers of Economic Knowledge 58
from the bookshelf

a personal note

APRIL SHOULD have been designated as Scare Month. We all had the goose-pimples scared off us by reports of the frightful power of the H-bomb. There were pictures of the 1952 explosion to prove that it was not all talk; and, apparently, that particular H-bomb is a pygmy compared to the ones we have now.

Five years ago, when all we had was a mere atom bomb, I used to hear city people say they were going to move out to the uncrowded country areas "where a man would have a chance." Now, even that comforting thought is gone. How do you hide from something which can reach out for hundreds of miles? And what about the cobalt bomb, which even on initial speculation promises to spread its umbrella of death over thousands of miles? Where does one go to escape that?

These are undoubtedly thoughts which occurred to many people as they watched the 1952 H-bomb flash on their TV screens. I found myself staring at the picture again and again, one news telecast after another—completely fascinated. Others told me the same thing had happened to them. I suppose it was a mild form of hypnosis, a feeling of being overwhelmed and very helpless. Small animals, I understand, become completely immobilized before the freezing stare of the hooded king cobra—just before he strikes.

That feeling has worn off now. As a matter of fact, as shocking as that initial reaction was, it lasted for only a short time after the TV set was turned off. Speaking for myself, I must admit that my quick adjustment to the H-bomb era was not immediately founded on realistic reasoning. It seemed to me that there was nothing I could personally do to make the world a safer place to live in. And since I didn't feel like committing suicide, there was nothing else to do but go on as though nothing had happened and hope that it would all turn out for the best.

BY THE TIME a week had passed, however, I had more inspiring thoughts on the subject. I remembered the day when I was a very frightened boy of seven; my mother was very ill and she had to be sent to a hospital. I remembered how I used to bargain with God every night for two months: if He would make my mother well again, I promised to be the best-behaved boy in the whole world. My mother came back well, just as I had prayed she would. Of course I didn't keep my promise; but I wish I had. All of us wish we had kept such promises.

Now I find myself again in a position where I stand to lose something I want to keep very much. Only this time there can be no bargaining. This H-bomb is my bomb, yours and everyone else's. Either we help to make this world the best of all possible worldly worlds—in which case we could not possibly chance destroying it—or we help to unleash a chain of stupidities which will make of this Earth a hell such as Hell has never known. Most of us have broken at least one solemn promise to God. Our poor credit leaves little room to doubt that Salvation can be extricated by still another bargain.

Finally, there are some very worldly considerations which would be well worth taking stock of. If we have been shaken by the power of the bombs we have created, how do you suppose the Russian people feel about our nuclear weapons? People fight for the things they want. In war they sacrifice themselves for the future of their nation, for their children's future—for someone's future. If there is no future, people will not want to fight.

I DO NOT BELIEVE the Russian people are spoiling for a war. The more total our weapons become, the less they can be driven to fight. If only to convince the Russian people that their leaders cannot impose the Communist will on the whole world, we must fight conventional, little wars wherever the satellite jackals choose to start them. They cannot win these little wars, and they must be made to fear the start of a Big War. I believe the Russian people are afraid of a Big War—more than we are afraid—and they cannot be driven to start one.

If there is enough hesitation, I believe the Russian people will take care of their own commissars. The longer the impossible war is held off, the more obvious it will become that life, as the commissars want it, is not according to what was promised; the more the Russian people can see that individuals, under the hated American capitalist system, live better, work easier and improve themselves more steadily than they (the Russians) could possibly do under the commissars.

The more terrible our H-bombs, the less likely it is that the commissars can force a Big War on their people. If we can stymie them in their little wars, they are trapped. While the Russian system grinds and the American system hums, with the Russian people and the whole world as spectators, we can be certain that world opinion, not the bomb, will resolve the difficulties of the world. I feel sure of this.

I am also certain that human beings will not erase themselves from this Earth before fulfilling their destiny of a better tomorrow.—H. B.

Adjustments from peak activity are in evidence at almost all levels of business, though the national pattern is mixed as to who has finished and who has only begun to "adjust"

Is Business Rolling or Rocking?

by Don Colen

CLEARLY, every age has its fads and fetishes. Equally obvious is that old enthusiasms frequently revive to parade under new names, behind new faces.

Consider the idea of the "hard sell." Since World War II, business has enjoyed a seller's market. Now the balance of influence has shifted in favor of the consumer. But a serious disruption can be avoided, according to the faddists. Simply convince the customer through intensive selling to buy more and stash away less. With the guiding hand of several business spokesmen, the assault on the piggybank has been brought across the tracks, tutored and made respectable. In *The Standards We Raise* banker-economist Paul Mazur puts it this way: Business has to achieve "the conversion of purchasing power into purchases at a rate equivalent to production." Briefly, people are saving too much, he says.

There is a familiar ring in this; for in the late Twenties, economist W. T. Foster and businessman Waddill Catchings teamed up to write about the "dilemma of thrift." Consumers, they too said, saved too much. In fact, Foster and Catchings found oversaving to be the cause of the business cycle, just as Mazur holds the "undersell" guilty today. Yet, while customers saved record amounts during each postwar period, they managed to buy prosperity.

Then came Secretary of the Treasury Humphrey with another variation on an old theme: in recent months the country has been undergoing a "rolling adjustment," mainly in response to a cutback in spending and produc-

---

Don Colen, an editor at the Research Institute of America, writes from considerable experience as an economist and specialist in news analysis.

ing for defense. Fortunately, there is nothing about a rolling adjustment which need disturb us, he said. "It's only when it hits all parts of the economy at once—becomes an across-the-board affair—that there is reason to worry." In short, when an adjustment stops rolling and starts reeling, watch out. For all of us the obvious question is: What is a rolling adjustment?

THE YEAR 1953 could easily be called the year of the big doubt. For every gloomy guess made about the future of business, the economy countered by breaking a record. The economy had all the appearance of a two-ring circus.

In one ring, as the year got underway, personal income expenditures, Gross National Product, corporation profits and employment were all heading for the top of the chart. In fact, personal income and corporate profits didn't turn down until the third quarter, while the GNP waited for the end of the year.

In the second ring, equally important indicators were sliding. Wholesale prices continued to decline from their '51 peak, production and payrolls started off in March, sales slipped in April.

Altogether, at midyear, say in June, the future seemed anybody's guess. Half the indicators were headed up, and the other half were going down. Now, almost a year later, the "ups" are very few. The first ring has closed down. The show is concentrated in the second ring where the "adjustment" of 1949 seems to have returned for a repeat performance. The forecasters who expressed worries in the beginning of the year, about downward tendencies to come, appeared to have been correct. They had kept their eyes on the right signals.

A business cycle is no cadenced march of economic cadres, all moving as one. There is little harmony and less unison among the various forces that produce the cycle. That is why no two business cycles are exactly alike in duration, causes, or timing. Still, there are a sufficient number of similarities from one cycle to another to say that some indicators *lead* the cycle. They start down sooner, and normally head up before the over-all business trend does so.

Wholesale prices, for example, is one. They hit their peak in 1951 and have been sliding ever since. Business failures is another. It too had been building up all through '53. And lead indicators like business incorporations and hours-worked passed their peaks in the early months of the year.

All together, the same indica-

tors that diagnosed business trouble in most previous recessions were beginning to say early last year, "Business went that-a-way." And by the time all doubt was erased that these were simply seasonal variations, another group of business barometers began to act up. This second group normally acts coincidentally with the over-all trend. Unemployment, corporate profits, freight carloadings are examples. They were all beginning to slip by August and September, when it became quite apparent that the economy was undergoing an "adjustment."

Then came a third group, the followers. Personal income, retail sales, and consumer installment debt normally lag behind the business trend. Last year was no exception. Personal income hit its peak in the third quarter and didn't show a drop until the end of the year. And while retail sales had been declining somewhat during the second half, it too didn't show a real drop before December.

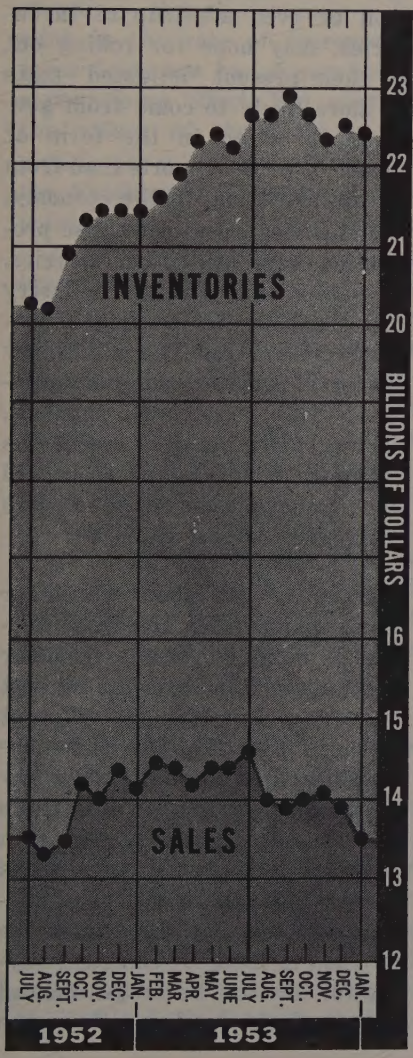
In short, 1953 showed all the symptoms of a business adjustment along classic lead-lag lines. Various sectors of the economy are "adjusted" at different times. But to fill in the picture, individual industries should follow a similar pattern. Some should have had their bath last year and now be drying off. Others should have started to feel the spray only at the beginning of the year. A few should be in the unenviable position of waiting. Let's see.

If one thing is at all clear about the timing of individual business reactions, it is that geographic and industrial position seem to be the ruling factors in the present situation. Consider geography.

Detroit or Toledo retailers, for example, only wish they could follow the general retail trend. Instead they find themselves in "labor surplus" areas where customers are more concerned with three-squares than with three-D. Their business fortunes are tied directly to Detroit's basic industry. And automobiles do not seem to be offering much of a solution at the present time. But should more war contracts be pumped into that area, retailers are then likely to take off on their own contracyclical binge. In fact, that is exactly what is happening in areas dominated by the aircraft industry. They are prosperous by any standards.

Florida provides another type of situation: business is booming. For Floridians, recession talk is simply "Yankee propaganda." Even automobile dealers, contrary to the nationwide trend, cannot get enough cars. The reason for the boom seems to be that Florida is expanding from a seasonal to

Are Merchants Shrinking Inventories —or Consumers Buying Less?



ECONOMISTS and businessmen have been poring over charts like this for the last six months trying to find the answer. The statistics are plain enough. From August 1952 to September 1953 retailers added $2,700,000,000 worth of goods to their inventory of unsold goods, making a record accumulation of $22,900,000,000 in September. Retail sales kept pace with this build-up until last July. Then came two months of falling sales and rising inventories. Shopkeepers cut down their buying from wholesalers, and this, together with pre-Christmas sales, helped to empty overloaded shelves. Despite a somewhat disappointing Christmas which temporarily boosted inventories, retailers were able to reduce substantially their pile of unsold merchandise during spring.

But while the statistics are pretty straightforward, their meaning is not. Have inventory reductions been accompanied by a corresponding rise in sales, or has the gap between inventories and sales remained unchanged? From the chart at the left it looks as if reductions in inventory have been matched by smaller sales, but February figures and March estimates tell a more encouraging story of rising sales and and shrinking inventories. On the other hand, more than one economist is wondering why retail prices have managed to stay so high, if retailers are really unloading their stock.

Of course, a lot will depend on the amount of cash in the consumer's pockets, and this in turn depends on employment levels this summer.

an all-year-round vacation mecca. Road builders, for example, see full-time operations for the next two years at least. And you can sense the same kind of optimism in talking to bankers, who necessarily are the most cautious business group in any region. Of course, Florida will feel the pinch if the present "adjustment" deepens. But if there is clear sailing through the end of the year or early '55, Florida simply won't know what the rest of the country has been talking about.

New England has another kind of headache. Here a declining area is pushed further into the dumps by the national trend. For the sagging American Woolen Company, as an example, there would be little relief in an over-all return to '53's highs. Woolens have been in the doldrums for some time; New England has simply become too high-cost an area for many industries. Many have gone by the board; others moved out.

Now for an example of what an industrial position may mean today, take an activity close to the export-import area of the economy. The mining of zinc and lead, of which most ore deposits are found mixed, is one. Zinc production slid 20 percent and lead 14 percent from 1952 to 1953. Recent prices are off over 30 percent. Meanwhile, imports of both metals have zoomed while mines have been closing throughout the West. The problem, of course, is competition from foreign mines and not the slump in over-all production or even a pileup of inventories. Any hope for rolling out of their present "adjusted" state is more likely to come from government action in the form of tariffs or price supports than from an upward trend in the economy.

Industries close to defense production have still other worries. Presently, the aircraft industry has a substantial backlog of unfilled orders. But the machinery industry presents another problem. The electrical segment, for example, shows reasonable strength. But machine tools will have to depend on civilian orders to displace defense cutbacks.

FINALLY, what about consumer goods industries? Here the picture is mixed: over-all, consumer spending in 1953 was the highest on record. But you get different pictures for durables and nondurables, and there is hardly any uniformity even within these groups. Autos posted a new high in dollar sales. But other durables barely held their own. In nondurables, clothing was even worse off than in 1952. By contrast, buying for food and beverages showed only a slight leveling off by the

end of the year. What, then, accounts for the present "recession deluxe?"

Not capital investment, nor consumer spending, nor government spending—though certainly a decline in the rate of increase in these fields has had somewhat of a depressing effect. But over-all, the villain of the piece is obviously inventory adjustment, as the President's Economic Report pointed out. Statistics prove it.

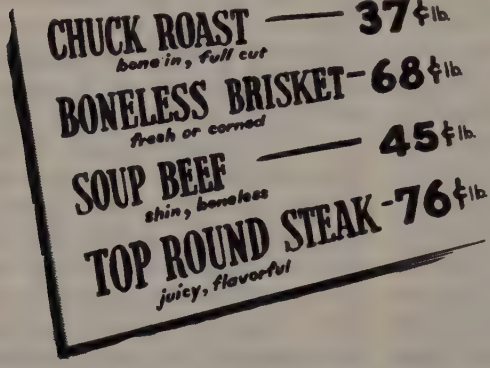
The over-all change in business inventories has been substantial since mid-'53. The "workoff" from the second to the fourth quarter was some $6,000,000,000. And individual industries followed the general pattern. In both durable and non-durable goods industries, peaks were passed in the third and fourth quarters. What's more, less than six months separates the industries that lead in working off inventories from those that lagged. The same pattern shows up in new and in back orders.

SUMMING UP, the evidence shows little indication of a "rolling" adjustment. There is no long line waiting outside of the showers; most of the economy seems to be inside, and few companies, if any, have yet come out. Certainly, none have dried off. Instead, a wave of adjustment seems to have moved uniformly back through the distribution channels from retailer to manufacturer.

Where there have been differences, they have been due to factors such as geographic and industrial location. The farm machinery industry is a case in point. During and after World War II, American farms became the breadbasket of the world. But as the agricultural countries recovered after the war, the market for American produce was limited. Farmers were caught with a greatly expanded productive capacity. For some time now they have felt the pinch. This has been the situation ruling farm machinery manufacturers, who have been rocked, not rolled into an adjustment. Their salvation rests squarely on the farm situation, not on the economy as a whole. It is the same story for a host of industries.

In short, the length and depth of this adjustment depends directly on what consumers do with their money. If they begin to hold off, prices will have to be slashed all along the line to move inventories. A downward spiral of the economy would be the outcome. But if consumers continue to buy at present rates, inventories will be worked off in an orderly fashion. Then and only then will the economy be able to get back to the business of booming. ■

The nation's ranchers and cattle-feeders get back into gear as "amateur speculators" drop out, much the wiser


CHUCK ROAST — 37¢ lb.
bone in, full cut
BONELESS BRISKET — 68¢ lb.
fresh or corned
SOUP BEEF — 45¢ lb.
thin, boneless
TOP ROUND STEAK — 76¢ lb.
juicy, flavorful

Behind the Price-Drop in Beef

by Gilbert Hill

BUTCHERS' signs like the one above are seen more often these days. If you match today's prices against those advertised a few months ago, you'll conclude a significant decline is continuing in beef prices. For most cuts the decline actually reaches back at least to last May.

It shows that the industry is returning to normal and that the years-long upheaval in the regular flow of beef from ranch to refrigerator is ending. *And*, it proves that it doesn't pay to try to snag a free ride on the other fellow's successful business by hasty speculation. In 1929 it was the stock market that taught this lesson. In the period 1952-54, it has been cattle.

Twenty-five years ago I was running a stock market desk on a newspaper when the "crash" came. I've been covering the cattle story for the same paper since 1952. It is amazing how the stories compare.

There are differences, of course. One is that in 1929 nearly everyone, including many who couldn't afford to lose, played the market. With cattle, most of those who took a licking have had the strength, so far, to take it without pulling their neighbors down with them.

In 1929 even the shoeshine boy across the street was saving his nickels to buy more stock. Every time the market climbed another point, he "made" another dollar

---

Gilbert Hill, special writer on "The Daily Oklahoman - Oklahoma City Times," gives most of his attention to agriculture, business and science.

for every share he had acquired by putting up a few cents for each as "margin." He spoke up about the money he was making as prices soared. He discoursed learnedly about "dividends" and "splits," "blue chips" and "cats and dogs."

It was easy to get the fever. Not only shoeshine boys, barbers, farmers and professional men, but businessmen and bankers, who should have known better, caught it.

Whatever the cause of the "crash," the amateur and johnny-come-lately were badly banged up. The later they got into the market, the quicker they saw their "profits" and eventually their "investments" shattered.

Perhaps too much bubbling money had been put into speculating in the stock market and too little real money spent on real productive enterprise. At any rate, the bubble burst first in agriculture. Prices of farm products began to slip badly. Some tried to sell their land, others their farm machinery. Suddenly there was no market. Then, in securities, when a rush of buyers tried to clinch their "profits" by selling out, the same thing happened. There was simply nothing inside the bubble.

Eventually, even many stocks which had a real value behind them were sold for a song. Meanwhile, those who had bought stocks as investments and not for gambling profits — the professionals, if you please—took severe losses on paper as prices plummeted. But most of them held firm and, in time, saw their securities begin to appreciate in value and produce income after the speculative froth had been cleared away.

What happened to the stock market in 1929 is now fairly well known. What happened to the cattle business in recent years is also not difficult to explain and is well known to people who have been "around farms" all their lives. But even many cattlemen do not realize how the national beef factory, which delivers a roast to your table, is organized as a whole. It is in the various divisions of this organization that trouble in beef began.

First, there is the calf-raising division on the remote ranches where the nation's beef supply is replenished each year. Here herds of cows and a few bulls live off grass and a little concentrated feed in winter. According to the best estimates, these herds will produce 20,200,000 beef calves this year.

When marketing time comes, the rancher weeds out a few of his oldest cows, no longer depend-

able "mothers." These are immediately slaughtered for sausage or for cheap cuts of beef. As future producers, the rancher selects the most likely looking heifer calves. All the rest of his calf crop he sells.

Some of the fattest calves are sold to packers for veal. But most of them are delivered as "stockers" to farmers who have grass or winter wheat pasture. The calves remain here for further fattening, and this is the second division of the business.

At marketing time again, the animals are returned to centers like Fort Worth or Oklahoma City or Wichita. By then, some are "grass fat" and ready for the meat packers. The others are redistributed to "feeders" in the corn belt who keep the animals for as long as a year, letting them fatten on corn until they reach full size.

Under normal conditions the prices for beef cattle swing up and down within a limited range. Cattlemen make a little, lose a little, and come out year after year with a narrow profit. The first rancher actually makes his money by selling his breeding grounds—by selling calves that have been raised on his grass. His costs include what he paid for his original cows, his cowboys' wages, his winter feed expenses and shelter. The stocker-

The Spread in Cattle Prices

According to average prices prevailing last fall, the economics of marketing cattle—from feeder steer on a Western range through a Chicago packing house—looks something like this in a typical case:

A Wyoming rancher sells a 700-pound steer (which is then only fat enough to be "U. S. Good" grade beef) to a feeder in Omaha for $15.50 per 100 pounds. Deducting just his trucking, rail and yardage costs, the rancher nets $13.85 per 100 pounds. The feeder keeps the animal for eight months and fattens him up to 1,120 pounds. His costs for feed (corn, soybean meal, silage, hay), labor and marketing come to $130.30. Plus the original cost of the steer, the feeder's direct costs are $238.80. And when he sells the animal (which is then "U. S. Choice" grade beef) to a packer at $25.50 per 100 pounds of on-the-hoof weight, his net return is $46.80. After butchering, about 660 pounds of salable meat remain (loss per carcass averages 41 percent). If the packer then gets a price of $42 per 100 pounds for the carcass from a meat wholesaler, he has made, counting the value of by-products, $17.36, or $1.55 per 100 pounds over the price paid to the feeder. This, of course, is not net profit; and from that point, another circuit, from wholesaler to retailer, must be run.

operator, in turn, sells pounds of beef on the hoof, often at the same price per pound that he gave, except that he has more pounds to sell. His costs take in his grass and wages for his cattle tenders. The same is true of the feeder who carries out the third step of the process.

Wartime conditions made prices leap and upset the routine of the national beef factory.

Price controls encouraged farmers in the calf-fattening business to keep their animals longer than usual, feed them enough inexpensive fodder, and hope for a profit "someday." Herds increased and slaughtering fell off. The resulting scarcity of meat forced prices higher. And this encouraged many speculators and others new to cattle to enter the business.

Because these newcomers bought calves with an eye to future higher prices, they sold fewer than the normal proportion for veal. And the increased number of young and old females produced more than the normal number of calves. Other amateurs bought at the stocker level. They held back many young beef animals, really fat enough for slaughter, to fatten them a little more.

Every animal withheld from the market reduced the nation's supply of beef. Prices of beef on the hoof and beef in the butcher store continued to climb.

Many ranchers grew uneasy: "We're pricing ourselves out of business. People will quit eating meat." Some sold out to speculators who were anxious to get in on "future profits." Most cattlemen caught the fever themselves and kept back more old cows and heifer calves to build up their herds. They did so with taxes in mind, too. By holding back some females they were able to realize savings under the "capital gains" provisions of the tax law.

Inevitably, business in the butcher shops began to slump as consumers balked at paying through the nose for beef. Cattle raisers were beginning to feel the effects of this when drought struck, first in Texas, then in Oklahoma.

Ranchers found their herds too large for their supply of grass. But when they rushed cattle to market, housewives failed to rush and buy meat. It was the old story: everyone tried to sell, no one wanted to buy, hoping that prices would drop even lower. The loudest wails came from those who had never been caught before, the newcomers to the business.

While beef prices had been climbing, there were stories all over the Southwest about the "killings" that hardware men,

dentists, doctors, lawyers and so on were making in cattle. One Oklahoma oilman I know spent $150,000 and borrowed the same amount from a bank in order to go on feeding his cattle. When the drought struck and the price of feed soared, he tried to "unload a few." He managed to pay back the bank, but he's back in the oil business now, working hard.

In the last few months, cattle prices have dropped "by the biggest dollar volume in history, because they were higher than ever before," as a banker recently told cowmen in Oklahoma. Today, more cattle than ever wait to be marketed, but rains have improved the supply of fodder and slowed the rush of forced selling. Chain and butcher stores are featuring "bargain beef" and have won back reluctant consumers.

IN THE interval most cattlemen have taken heavy "paper losses." But the professionals still own their land. They still own their cattle. They know, too, that the number of mouths to be fed in this country is still growing rapidly.

Most of them feel they have passed through the storm. Recently a "steerman," or stocker operator, told me with a grin, "I bought that bunch out there cheap. My feed costs are in line. I lost last year, but I'll make it back this spring. But the guy who sold them to me took a licking."

The man beside him, a calf-raiser, looked cheerful too when he said, "My herd of old cows is not worth what it once was—but it's worth about what I gave for them in the first place. And I've sold a lot of $100 calves off them—calves that brought more than I gave for their mothers. I don't have a kick."

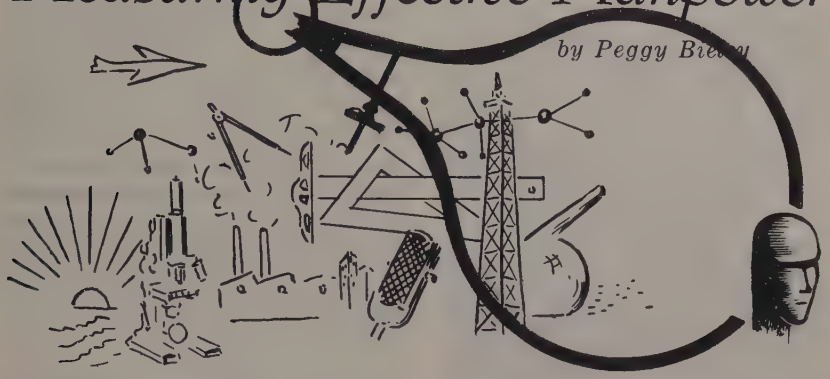
Cattlemen agree that speculators caused most of their trouble. But as one admitted to me, "We sold them the stuff, at prices higher than anyone else would give us at the time."

RANCHERS and stockers are hoping prices will stay put. They would rather deal at levels "where folks will eat us out of trouble." Out in the cow country anyone who will promote a way to increase buying power, particularly for meat, by reducing income taxes or by any other method, will get support.

Yet no one expects a depression if consumer buying power fails to pick up immediately. In any event a deep slump wouldn't start at the cattle end of agriculture. *Its* panic has been here and gone, though the amateur speculators will be wearing big branding scars for years. ■

Measuring Effective Manpower

by Peggy Bieley



Nothing leads to progress as much as the development of skills today which can satisfy tomorrow's needs

THE PARADOX of moderate unemployment alongside critical shortages of skilled manpower and brainpower is still with us. In the financial pages, editors and economists estimate how long unemployment will fluctuate between three and four million. But in the help-wanted columns, employers are crying for engineers, chemists, metallurgists, geologists, physicists, teachers, doctors, accountants, administrators and experts in a dozen professional and technical fields.

Superficially, this state of affairs is astonishing; actually, it is not. Readjustments in business and reduced industrial production mean that some workers in basic industries, as well as seasonal and temporary jobholders, have been laid off. But at the same time the nation does not stop growing: capital investment remains high, business goes ahead with its short and long-run expansion plans, the pace of scientific and industrial enterprise is accelerating, and the specialist stays in short supply.

Harsh as unemployment is, our economy does not now lack superior defenses against a serious recession. It is the real shortage of skills, not the temporary "surplus" of labor, that is fundamentally disturbing. In the case of the professions and of the basic sciences, pure and applied, these deficiencies cannot be corrected in

Peggy Bieley, free-lance writer of Miami, Fla., devotes a good deal of time to the study of economics and the social sciences.

the space of six months, a year—even several years.

THE cumulative shortage of new engineering graduates was estimated to be 25,000 at the end of 1952, although the total number of engineers has doubled since 1940. In 1952 about 30,000 fledgling engineers received their degrees; 23,000 in 1953; and only about 19,000 will be graduated this year. The unfilled backlog will continue to rise for several years. Mine engineering, metallurgy and geology in particular find it hard to attract new blood, but almost all fields are raising their bids.

On lower but hardly less necessary levels of skills, industry faces the prospect of drastic shortages. The blue-collar echelon must be systematically enlarged as industrial processes become increasingly complex. Last year only about 300,000 apprentices were in training for technical work. To achieve a competent degree of skills may demand anything from six months to several years of apprenticeship. Normally expanding needs will require more than 600,000 apprentices within a relatively short time.

Calling attention to the shortage of technical and scientific manpower is almost a job for Cassandra. The lack of one mycologist is not going to keep the world's work from getting done or stop our economy dead in its tracks. The trouble with this easy assurance is that modern society has been transformed by experts into an intricately interdependent enterprise. On the mycologist's experiments with molds and antibiotics may depend the chemical worker's job. Though it may seem less ominous than the shortage of doctors, the lack of experts of all categories, from engineer to refrigeration technician, is a real danger.

OVER THE last fifty years the number of scientific and professional workers in the United States has grown almost twice as fast as the general population. In the same period, the country's level of technology has doubled every ten years. Indeed, from 1940 to 1950 the rate advanced to nearly two and one half times. This suggests that technological change is cumulative, that proportionately fewer experts can accomplish greater fundamental changes. To some extent this is true. But now, on the threshold of new progress, our techniques could outstrip our ability to put them into practice, for lack of effective manpower. And these techniques will wither unless rooted in the basic theoretical investigations that at present are being neglected.

Progress in electronics and

nucleonics is creating ever higher demands for scientific personnel in those industries. Only a few years ago these fields existed only in the form of mathematical symbols chalked on university blackboards. From the oil and natural gas industries a new field, the petrochemical industry, is being built. It now accounts for one-fourth of the production of all chemicals. An abrupt upsurge followed by steady growth is anticipated for the relatively older field of air conditioning. Spokesmen for this industry consider it already a billion-dollar business and describe it as practically "recession-proof." In all these industries, and many others, tomorrow's technology depends on the effective training of skilled manpower today.

THE National Manpower Council, established at Columbia University under a grant from the Ford Foundation, has been engaged since 1951 in intensive studies of "the training, skills, capacities, competence and creativeness of the American people." Along with other private groups, such as the Engineering Manpower Commission of Engineers Joint Council, the NMC is concerned especially with the "*quality* of our human resources."

So far, the Council has studied the problem of student deferments and the draft, and that of the use of scientific and professional manpower. Its next study, "A Policy for Technical and Skilled Manpower," will be released this coming fall, and subsequently it will take up the role of womanpower in the economy.

In a conference sponsored by the NMC last October, authorities on manpower questions from industry, government and the colleges examined the practical utilization of scientific manpower. The proceedings of the conference were published this spring, supplementing the Council's report of last year, "A Policy for Scientific and Professional Manpower."

First of all, the Council observes, we need more exact knowledge of our human resources, including basic data on the development of superior talent. It recommends that educational institutions be strengthened, that the number of students be more uniformly maintained, and that more of our best young people receive higher education. These broad objectives, with better utilization of the available supply, can provide the necessary scientific manpower, if supported by "an informed public opinion."

MUCH OF the immediate shortage of manpower can be attributed to two general causes: the increased and urgent demands for scientific

and professional manpower following upon the Korean war and our defense buildup; and the sharp decline in the number of young university graduates as a consequence of the low birth rates in the 1930s.

In 1950, with the Korean war, industrial and military mobilization were imposed on an almost fully employed economy. As the tempo of industry quickened and the armed forces grew, the need for scientists and technicians outran the supply. Despite cutbacks in defense appropriations recently, the still extraordinary demands for weapons and equipment mean persistent shortages of specialists. The aircraft industry exhibits an almost insatiable appetite for engineers and for skilled and semi-skilled technicians.

The peak year for college graduations occurred in 1950 after five years in which universities had been swelled by battalions of veterans attending school under the "GI Bill of Rights." From a maximum of almost 434,000 in 1950, the number of new graduates fell to 332,000 in 1952. The current figure of 300,000 annually is not expected to increase significantly before 1959-60. The Commission on Human Resources and Advanced Training has forecast that the over-all number of Bachelor of Science graduates during the period 1952 to 1957 will decline by 30 percent from the preceding five-year period.

This decline will be reflected later in a smaller number of advanced degrees awarded. Since there are now in the country only about 35,000 holders of Ph.D. degrees in science (who are presumed to be capable of doing basic scientific research), this loss is one we can ill afford. It represents, necessarily, a permanent loss of brainpower, and future shortages of scientific skills.

IN ADDITION to these underlying reasons, special factors make for shortages in different occupations. Qualified public accountants are now in short supply. Inadequate starting salaries are no doubt one reason; but perhaps more important is the practice of hiring recent graduates only for the December to April tax season and then dismissing them—a pound-foolish practice that certainly does not encourage the young student to take up accounting.

Other "disadjustments" in the supply of professional manpower can hardly be corrected without root-and-branch reforms in the industries concerned. The railroad industry—often considered a "mature" industry, its greatest expansion having passed — experiences great difficulty in getting college graduates for eventual promotion to top managerial and

technical jobs. Low starting salaries and rigid rules of seniority make railroading unattractive to the ambitious young man. Mining companies, on the other hand, though they also suffer from the superior drawing-power of more glamorous fields like electronics and chemicals, have undertaken mechanization and safety programs that help to make the mine environment more attractive.

SOME dislocations in the distribution of skilled manpower are doubtless inevitable, and cannot be dissociated from the expansion of our economy. The railroads may have no solution to their problem. However, better utilization of existing manpower is possible. Federal cost-plus contracts, for example, have encouraged the inefficient use of personnel, permitting a company to hire more experts than are actually needed for a specific project. The specialist, like the production-line worker, can be "underemployed" if given a job where he need not work at full capacity.

Because fewer skilled men are now available, many companies are reexamining their hiring practices. Some concerns have organized in-plant training for employees at various levels of skills. Others pay tuition fees at nearby colleges to raise the level of their engineers' competence. Many companies are hiring more enginering assistants and draftsmen to handle the routine tasks which previously took up too much of the graduate engineer's time. The difficulty here is that there are acute shortages of technicians.

Although it is estimated that industry needs between three and five technicians for every engineer, only one technician is being graduated from the recognized technical institutes for every five engineers getting their degrees. On the other hand, many engineers are working in managerial positions which do not make full use of their technical training. The Manpower Council suggests that if graduates of liberal arts and business colleges had a few engineering courses, industry would have additional reinforcements of potential administrators.

To relieve persistent shortages of scientists, more young people could be persuaded to choose careers in engineering, chemistry, physics, and so forth. But then the social sciences and humanities would suffer. Furthermore, it is impossible to predict accurately where shortages will prevail in four, eight or ten years. And it takes that long after high school to become expert in a scientific area.

TEN YEARS ago we had only a casual need for students of the

Korean language and culture. Today, they are in critical demand, as are experts in Asiatic, Eastern European and Russian languages and cultures. Nuclear physicists, once cloistered scholars, and not unhappy about it, abruptly became vital to national defense. Who knows where the next "break-through" may occur in the physical, social or biological sciences, or in some combination of these?

This points to two fundamental considerations, which are also areas in which we can do something to anticipate future demands.

We must raise teaching standards in the elementary schools, avoid premature specialization in colleges and not neglect basic research in the sciences.

Prof. F. G. Watson of Harvard University observed recently in Scientific American that: "The focal point of the problem [of the shortage of scientific manpower] is in the secondary schools." There are now 6,000,000 high school students; there will be 11,000,000 in 1966. Seven thousand new high school science teachers are needed each year now; 10,000 will be needed soon; yet 5,000 currently graduate each year. More young people will not be drawn to teaching unless salaries are raised, and until the esteem we once had for the profession is restored.

As for the neglect of fundamental research, it is estimated that at present only some 15,000 scientists are engaged in it. Military and industrial programs, greater rewards, and pressures of all kinds have pushed scientists more and more away from the essentials. Out of $338,000,000 in Federal funds given to universities and institutions last year, four-fifths went for applied research and development programs. Yet behind each practical development lie theoretical explorations—behind the man working, the man thinking.

Solutions to these problems depend to a great extent upon public awareness and the development of effective public opinion. It must be effective if we are to have the expert manpower on which, quite simply, the national future depends. ■

We Live off the Land

In 1870 each farm supplied its own needs and those of one nonfarm family, on the average. Today, with a much smaller farm population, but more highly mechanized farming methods, six or seven families are dependent on the produce of each farm.

Economic progress demands huge sums for investment, but stability requires that capital formation be constant and steady as well

Creating Capital Today

by Arthur A. Smith

With the exception of war periods, when vast sums of capital have been needed immediately for war plants, the American people in this century have been able and willing to save *voluntarily* practically all the capital funds essential to economic progress.

However, the vast majority of people who save do not determine the real economic use to which their savings are put. Such decisions are made largely by the institutions with whom most of the savings are entrusted—banks, savings and loan associations, insurance companies and so on.

The men who make these decisions do so on the basis of certain determining conditions. These include the prevailing interest rates, the nature of obligations to those whose savings are held, the laws and regulations affecting financial institutions, and—most important—general economic conditions.

It has been a common mistake to think that the mere existence of funds or the machinery for creating them means that those funds will be put to use. The fact is that if economic conditions are not promising — if enterprisers' expectations are not good — the number of applications for available funds will decline. Even very low interest rates will not induce the borrowing and utilizing of funds. And under such economic conditions the lending institutions themselves will tend to stiffen their requirements.

No institution cares to make a loan at any time unless there are reasons to believe that the loan will be repaid—just as it is true that most enterprisers do not care to ask for loans unless they see a chance to use the funds advantageously.

When we look at commercial banking in particular, we find a system that does not depend

Adapted from a statement by Arthur A. Smith, Economist and Vice President, First National Bank in Dallas, before the Joint (Congressional) Committee on the Economic Report for 1954.

strictly upon voluntary savings and its own capital funds. It is able to create funds through the lending process, and does so upon demand—when the decision-makers think that the loans can be used in such a way as to generate the means of their repayment.

Our commercial banking system, as it now exists, has power to make available any amount of money conceivably needed by business for working capital and the other purposes for which they ordinarily serve. It is sufficiently flexible and adaptable to do so. However, money available and money at work are not identical.

Periodically, the Federal Reserve System announces changes in the proportion of reserves which banks must hold. But it does not necessarily follow that a change in reserves to make funds more available results in greater use of them. Nor does it always happen that an increase in reserve requirements leads to proportionately less loaning. It *is* true that the volume of business and the volume of money in use tend to fluctuate together.

This would seem to lead to the proposition that changes in business activity cause similar changes in the volume of money in use, rather than that changes in the money supply cause business changes. In other words, something first happens to business that exerts either an upward or a downward pressure upon loan demand. But while it is conceivable that bankers themselves might contribute to the pressure, once the trend is underway, most would deny that they originated it.

For example, business conditions might deteriorate to the point that bankers would regard it necessary to remain more liquid—better able to meet demands — either by retaining a larger percentage of cash or by maintaining a stronger reserve position in credit. To achieve this, they would adopt a tighter loan policy, perhaps calling in some loans and refusing to renew or make many others. This was particularly true in the days when banks feared "runs." There is less excuse now since all but an insignificantly few banks are under the protection of the Federal Deposit Insurance Corporation.

But we come back to the point that cannot be eluded: economic conditions may be such that there are fewer "worth-while loans" to be made even under the customary standards of credit followed by banks. And that raises the question: Should bank loan standards be reduced in the hope of stimulating business activity? I am afraid that in the light of their responsibilities to depositors and

stockholders, banks would not follow such a course without some guarantee by the Government or the Federal Reserve authority.

At neither extreme, down or up, can it be expected that the commercial banking system deliberately will apply either stimuli or brakes to business activity. Such must come from a more effective, centralized authority.

DESPITE the fact that we are the most advanced people in the world in matters economic, we still have not found for sure what it is that swings the economy periodically from expansion to contraction. The most popular explanation today is that the economy does not *consistently* generate a demand sufficient to empty the shelves at remunerative prices. But this begs the question: Why?

. . . Does temporary expansion stimulate optimism which leads to a liberal supply of credit, which in turn leads to an abnormally high demand?

And does this extension of credit in time cause contraction, as millions of indebted people (producers and consumers alike) struggle to repay out of their future incomes, thus lowering future demand?

. . . Whatever it is, the ups and downs of business activity are not due to a lack of raw materials, or a shortage of plant facilities, or an inadequacy of transportation, or a dearth of manpower, or a deficiency in managerial ability, or a want of technological knowledge, or a scarcity of capital funds. All these we have in abundance, and when they are coordinated toward a common objective—like winning a war—their output amazes us all.

The mere availability of all these ingredients essential to baking a great economic pie does not assure us that the pie will be baked. As the prerequisite, some economists single out "effective demand." Others put forward "the prospect of profits," or "enterprisers' expectations." But something else is needed—something less tangible, and difficult to define.

This vague something has grown in its essentialness over the ages. It has become more and more important with increasing economic complexity, with the rise of specialization and greater interdependence among us.

We should double our efforts to find out what this catalyst really is and how it can be reasonably stabilized in the interest of economic progress. As the President points out in his Economic Report, "A high and sustained rate of economic growth is necessary to the welfare, if not the survival, of America and the free world." ■

A unique Wisconsin program gives the wandering children of migrant workers a chance to sink some firm social roots

by Winifred Barton

Moss for the Rolling Stones

AN UNUSUAL class was in session in the little, one-room country schoolhouse. Dark eyes perused the pages of textbooks propped up on twenty-five desks.

Felipe's thoughts wandered a bit and he looked away from his geography lesson. He was happy to be at school instead of in the fields pulling up sugar beets. He was glad that his father and mother, migrant farm laborers from Mexico, were now working the fields near Waupun, Wis. As usual, this was only a temporary home, but here he could actually attend school for the first time in eight years of nomadic life.

Miss Dolores Brown, one of the teachers, was smiling at him now, and he grinned back shyly. A month before Felipe would have blushed and hidden behind his desk at such a sign of adult affection from anyone outside his own group.

By the second week of school the teacher had become his friend for life. She had made him feel he was accepted when she asked if he would not prefer the "inglés Philip" to the "español Felipe." After all, even though he was of proud Mexican ancestry, was he not an American boy?

By making these migrant children feel welcome, and by giving

Winifred Barton, free-lance writer of Fond du Lac, Wis., writes from first-hand experience as a former teacher.

them at least a beginning in formal education, the 6,700 townspeople of Waupun, have embarked on a unique venture. Here is a cooperative local attack upon one of the most extreme failures in social and economic integration that Americans have to deal with.

Our Federal, state and local governments generally recognize the difficult position of children who are mentally or physically retarded. Along with private organizations, they have provided a number of special schools and other institutions. As a result, many of these children find the chance for individual development that enables them, when they grow up, to earn adequate incomes and share the American standard of living.

BUT WHAT about the economic opportunities for the children of approximately 500,000 migratory workers in the United States? These boys and girls, most of them the children of American citizens of Mexican descent, possess talents and potentialities on a par with those of the nation's children as a whole. But with their parents they must follow the harvest circuit that swings from the Southern States in the winter to the northern sections in the summer as different crops mature.

Most of these youngsters get little chance to attend school. In many localities, public schools are unsuitable for them because of the language barrier. Only half of the children speak some English. Most of the five- and six-year-olds converse only in Spanish.

And so the inevitable happens. The appetite for knowledge is frustrated and blunted. The child becomes resigned to working with his parents in the fields. He gradually begins to evaluate himself as a second-class citizen. A boy enters adulthood and, unequipped for any better way of making a living, follows the pattern of the crops.

In 1949 the League of Women Voters of Waupun decided to do something about the situation in their corner of the state.

Many business and church organizations quickly responded with help. The Home Missions Council, a club of thirteen religious denominations, proved an invaluable aid. The United Church Women of Wisconsin lent a hand, along with the National Council of Agricultural Relations. These groups provided necessary funds and personal assistance.

Through the efforts of county school superintendents Lester Timm and Ira Cravillion, a schoolhouse was donated and books were contributed. Normal-school students volunteered as teachers.

In 1950 the Human Relations Council was formed in Waupun to work out a pilot project. The Council was assisted by the Governor's Commission on Human Rights. A number of University of Wisconsin students devoted their summer to the project. Later, through the student community fund, they set up a salary schedule for teachers. In order to transport the children from the three migrant camps in the area, a bus was fitted out.

Now the migrant children can attend school for at least two months, or until the harvest ends in the vicinity.

LAST YEAR, at the request of the newly formed State Migrant Committee, the school's staff worked out curriculum units for the special needs of migrant children. "But the hardest part of my job," Miss Brown comments, "is to break down the children's reserve, to get them to play openly and freely, and to make them feel that the world is concerned with them."

The children now attend school regularly, clean and polished, and wearing shoes. But if they become particularly pleased or excited, off come the shoes.

Classes are held from nine to twelve each morning. The twenty-five students range from five to twelve years of age. The academic schedule is patterned after that of a public school but is less formal. Study is based on the children's personal experiences. Geography, for instance, hinges on "Traveling We Go." Instead of "the clothes you are wearing were made from cotton that was picked in Mississippi," these children are told, "very likely the cotton *you* picked was made into the clothing you are wearing."

At lunchtime soup and milk, donated by a local church group, are served. Before they eat, roll call is taken to make certain that no one of the mercurial children has strayed away.

Roberto is missing! Miss Marion Hull, the other teacher, looks through the window, expecting to see the six-year-old in the sandbox. Instead, after a brief search, he is located in the shower, dancing around and singing at the top of his voice.

The children all love to sing and have a keen sense of rhythm. They are quick at memorizing English songs but are also encouraged to appreciate their own folk tunes. Little Angelita entertains with a professional touch when she sings "Potatoes to Sell," a Spanish song she accompanies with rhythmic thumping of her fingers on the top of her desk.

The children spend some afternoons in the park under the super-

vision of the town's recreation director. Often they are taken on field or industrial trips. After a visit to the telephone company (only two of the class had ever used a phone before), they happily played with toy phones, calling the doctor, the grocer, the fire department, practicing English.

THE LIBRARY is a favorite spot, and the facilities offered are a constant wonder. Juan Garcia is supremely happy when he can lie sprawled on the floor and devour a copy of *Popular Mechanics*. Librarian Bob Pohl cheerfully tolerates the unrestrained activity. One object however, is never touched. That is the unabridged dictionary, which overawes all the children. "Too beeg!"

Sanda is ten, the eldest of five children in her family. One day she amazed her teachers when she proudly entered the school carrying her four-month-old sister, the infant's formula bottles, diapers and blankets. With Miss Brown's permission, she expertly fashioned a bed out of a large drawer. Very soon the baby was sleeping peacefully in the improvised crib, and Sanda — maternal duties completed—joined the class in arithmetic. Throughout the day she skillfully managed both the child and her school work.

What is the outlook for these children? A flotsam and jetsam existence? Impressed by the fact that a core of education is imperative if these children are to be given their chance as Americans, other communities are slowly beginning to develop programs similar to that of Waupun. But will these be enough?

To Wisconsin each year come 12,000 migrant workers to do essential seasonal farm work. While the state encourages adequate housing, health and welfare services, the task of providing for the community needs of these people is a big one.

Governor Walter J. Kohler points out that "Communities and employers who need these migrants can go a step further in making them welcome as people and in offering them religious, recreational, and educational facilities. This will serve the double purpose of helping the migrants and helping the communities. Reputations spread fast, and a friendly community is not likely to suffer a shortage of workers. . . .

"But the real key to any lasting achievement," he emphasizes, "lies in the voluntary efforts of the communities concerned. This is why the initiative and civic responsibility shown by Waupun is very significant and sets a helpful example to the State and to the Nation." ■

"Savings up to 40 percent!" is the claim of discount houses. "They're bootleggers, peddlers—a menace!" retort retailers. From the consumer's point of view, which side is right?

The Furor over 'Discount' Sales

BARELY noticeable amid the cascade of news about recessionary drops in sales of this and that category of goods is the persistent countercurrent in sales of electrical appliances. Leading makers of mixers, hand-drillers, plug-in clocks, toasters, etc., say they are doing business at a faster clip now than at this time last year.

General Electric, for example, notched a 25 percent gain in January and February. Manufacturers generally purport to be mystified, saying, "The public just keeps buying small appliances." However, according to spokesmen for some retail stores, much of the upstream activity can be explained by cut-price sales.

These sales in turn are traceable—it would be hard to say how directly — to the mounting influence of the commercial *enfants terribles* called discount houses.

Run a finger down the "D" columns in the yellow pages of your phone book. You will not find "Discount Houses" among the listings. It is typical of the way these distributors have been dealing with the public that they are not identified by their familiar name in directories or even, with a few exceptions, on their own "confidential" but liberally handed-around customer cards.

It would not be fair to attribute this reticence to an attempt at secrecy or obscurity, however. For discount houses have been operating and branching out in as many shapes and forms as "handymen"

or "soldiers of fortune"—and you won't find them in the telephone book either. In any case, the prominence of discount houses in the public consciousness is assured from now on. If their spreading success does not guarantee this, the loud and rising resistance to them from other types of retailers, and *some* manufacturers, will. Much of this resistance is taking the form of litigation over conformity to fair trade laws.

UNMISTAKABLY the thriving, multiplying discount houses are a phenomenon of significance to anyone in the market for a watch, a divan, an air-conditioning unit, a diamond ring, a dishwasher, or even a tube of toothpaste. There is practically no item that can be excluded—if you extend the definition of "discount house" far enough. And because of the way it has been expanding and spinning off side effects, this flying wedge of price-cutters makes up a new force in the determination of profit margins, in retailing generally, in distribution, and in economics.

The embattled National Retail Dry Goods Association, whose officials castigate the upstarts as "pushcart peddlers" and "predatory price-jugglers," estimates that discount houses now number at least 10,000 across the country.

William Burston, merchandising division manager of the NRDGA, says price-cutting outlets are doing $5,000,000,000 worth of business per year, excluding auto sales. This approximates the combined current volume of all household appliance-radio stores, and jewelry stores, as designated by the Census. Burston will soon tour eastern and midwestern states to alert member stores to the "threat of the bootleg sellers."

A March survey in thirteen cities found discount houses waxing in numbers, size and sales volume. At the same time government figures were showing the dollar sales of most other retail outlets to be shrinking.

FROM Detroit a spokesman for one large discount house said that there are ten to twelve such outlets in the city, ringing up a volume of at least $250,000 a year each. A year ago there were only four or five selling at this rate. The head of a discount-buying club in Houston declared, "It's getting to the point where you're considered a fool if you buy anything at the regular retail price." In New York City, where such judgments may be said to have been offered for some time, a leading discount house "operator" estimated that there are nearly 1,000 discount dealers in the city, compared with 400 to 500 as recently as 1951.

Today, with many retailers still struggling to clear their shelves of inventories (while heads of manufacturing companies and federal government officials run fingers inside their collars waiting for the merchants to do so and start sending in more orders for fresh goods), the methods of the discounters call for a look-see. They may be setting a few precedents, for consumers as well as for businessmen.

WHAT is it like to buy in a discount house?

The discount house operates stripped-down. For the broken-in and amenable customer, this applies to both appearance and behavior.

Feeling a little venturesome, yet attuned to a cool, almost clinical atmosphere, the buyer with purposeful stride enters the strictly functional establishment. *He knows what he is after.* In the manner of a springer spaniel he seeks out his wants without listening for a "May I assist you," let alone an observation on the day's weather, from behind the counter.

With two or three other customers sharing the matter-of-fact attention of the sales clerk, he skims available sizes, colors and so on briskly and decisively. He states what he wants, hands over his money (cash) and departs without any sidelong glances at other merchandise on the way. If he is a new patron he is likely to do so out of misgivings over whether there was something wrong in the transaction.

When the accustomed buyer has ordered something that requires adjustment or service, such as a ring to be engraved, he does not complain strenuously if, as is not unlikely, he returns to find the lettering tastelessly or crudely done. He pays the balance of the price and takes the ring to an engraver of his own choosing. Meanwhile he mulls over whether he should make another visit to the same discount house to purchase a high-speed camera.

KNOWINGLY or otherwise, the discount house manager applies to distribution some of the key principles of mass production—undeniably at the cost of some personal conveniences and choices. The discounter stresses heavy quantity and rapid outflow. To a certain extent his methods resemble those of the men who introduced self-service groceries. To a certain extent, also, he draws the same type of criticism that greeted these innovators.

The discounter does not stand alone among retailers in borrowing from principles of mass production. But he presses nearest to the limit in striving for fast turnover at a small profit per unit.

He cuts a tenth to two-thirds from the manufacturer's retail list price, frequently defying fair trade laws in the process. To be able to sell this way the discounter must pare costs to a minimum.

He dispenses with many amenities and services offered by the orthodox retailer, including credit, usually. He also gets along without advertising for the most part. A few discount houses do much or all of their business via direct mail solicitation, but most limit themselves to the issuance of customer cards to members of companies, unions, clubs, church groups and other organizations. For years they have profited from the assumption that these cards confer a privileged status upon the holders. But the bigger and better-known they become, the less they have to depend on such devices. In any event, there are few discount houses today that will not take orders from a solvent-looking individual even if he cannot flash anything but a wrinkled six-of-hearts as identification.

Some discount houses operate with thousands of square feet of floor space and tons of goods in stock. Others display just a few samples. Still others, particularly the small-town outfits and the newer entries, function in offices bare of goods, taking orders from catalogues for delivery from wholesalers.

ALL IN all, they are making their influence felt locally as sales continue to lag in most orthodox stores—not counting the Easter pick-up. Many a recent "block" or "community sale" has taken place as a sort of collective defense measure against the inroads of discount houses. This sort of thing may also be interpreted as an attempt to copy. Actually, harried downtown emporiums are going in more and more for "spot" promotions to remind their old customers that they, too, know how to slash prices. Queried in Portland, Ore., by *The Wall Street Journal*, a discount house man insisted. "Every retailer is a discounter. It's just that they normally call it a special or a sale."

But while the "If you can't lick 'em, join 'em" theory may be winning adherents, an impressive phalanx of retailers' groups has chosen to hold on to the towel for a while and throw down the gauntlet.

The 7,000-store National Retail Dry Goods Association is carrying out what is described as the first coordinated and persistent national campaign to tell consumers the "truth" about discount houses. The NRDGA claims that the customer ends up with less value for his money when he

deals with discount houses. It points out also that some discounters actually mark up unknown brands beyond going prices. On a broader level the NRDGA alleges that because discounters provide little product information and service, they work against the long-run interests of both producer and user.

As allies the NRDGA numbers the National Association of Retail Druggists, the National Appliance and Radio-TV Dealers Association, the National Retail Jewelers Association, the National Retail Hardware Association and five or six other such groups. These organizations are cooperating not only to lay their case before the public but also to put pressure on wholesalers and manufacturers supplying the discount houses, and to carry the fight to the discount houses themselves over infractions of fair trade laws.

THE FAIR trade laws are individual state enactments which authorize manufacturers to fix the retail prices at which their branded products must be sold. They apply everywhere but in Texas, Missouri, Vermont and the District of Columbia. Last fall the Supreme Court upheld Federal legislation which enforces price maintenance contracts on all retailers in fair-traded states whether or not they sign such contracts. The argument most frequently given in favor of this legislation is that it protects the small shopkeeper from being swamped by a big competitor who can afford smaller profit margins. Scores of cases await settlement.

In their drive to enforce the fair trade laws in court, the "regular" retailers' groups are keeping an eye on the efforts of a few tenacious manufacturers. A few weeks ago Johnson & Johnson, producer of surgical dressings and baby products, succeeded in having a Federal court injunction declared against E. J. Korvette and Co., which operates five discount outlets in the New York City area. Korvette's can no longer offer J&J's baby talcum at cut rates.

IN THE appliance field, Sunbeam and General Electric have obtained many such injunctions, employing professional shoppers to grab evidence. These actions stand out, however, because they are rather exceptional. Much to the disgruntlement of the orthodox retailers, doubt seems to bedevil many manufacturers who could easily bring suit against discounters who undercut list prices, but sell their products.

In the months ahead manufacturers and retailers may or may not attain unanimity on this issue; fair trade may or may not prove enforceable. But in the

meantime the discount houses are taking the threat of adverse publicity and further legal action seriously. Proof of this is the emergence of an organization which few would have thought possible two or three years ago: the National Association of Discount Merchants.

Despite their traditional shyness, their strongly individualistic traits and the fact that many of them have for long refused to acknowledge the "discount house" tag, members have begun to sign up in New York, and inquiries have begun to filter in from other parts of the country. Guardedly the association has announced, among other things, that it intends to combat unfavorable publicity and to "consult and advise" members on fair trade litigation. Herbert S. Greenberg, attorney and spokesman for the still nascent group, professes high confidence in its potential strength and says he feels it is riding a wave of consumer acceptance.

WHY HAVE the discount houses become so successful? This starts arguments. Some say that overproduction and oversupply is responsible. In their eyes it is inevitable that "irregular outlets" should spring up to divert some of the surplus overflowing the "regular" channels of distribution.

Others say that "regular" retailers have failed to promote their goods adequately to the new buyers' market and have held their prices artificially high; while the discounters have plunged in and exploited the opportunity thus afforded, meeting the consumers' mood of choosiness and tapping their tremendous reservoir of savings.

But by the time this question is thrashed out satisfactorily, something else likely will have become clear—that we have been passing through a rough period in the long and perhaps endless process of hooking up our ways of distributing goods to our ever-developing ways of producing them. We are experiencing the pains of shaking off some trade-ways that have hung on from previous centuries, and of revising some of the fragmentary ones we have been trying out since we first realized we had a mass output to deal with. Price-fixing and price-cutting are phases of the constant evolution in marketing.

It may just happen, too, that those who presently seem to be acting as guinea pigs for all this trial and error, the consumers, will turn out to be the arbiters. ■

Complexities of modern business have led some companies to send key personnel through study programs which rival college courses

The Mogul and the Ivy

If any one had told "Commodore" Cornelius Vanderbilt one hundred years ago that all he needed to become a successful businessman was a short course in Industrial Management offered by some university, his reply might have been colorful, if unprintable. And he would have been right.

For those were the days of buccaneering in business when anybody with a good head, a tough hide and a little luck could and did make a fortune. The rough-and-tumble of the "gilded" age created problems which were in many ways just as difficult as those faced by the modern executive; but they were also a good deal less intricate.

Imagine the surprise (and horror) a Vanderbilt or a Morgan would feel if he were to visit some of our larger corporations today. At the General Motors Institute in Flint, Michigan, for instance, he would find 1,852 paid employees of the company participating in what is perhaps the most comprehensive educational project ever undertaken by industry. Young high school graduates of demonstrated ability take part in a combination shop and study course which, after five years, leads to degrees in mechanical engineering, industrial engineering or business administration. In this way, the company hopes to insure a continuous supply of trained administrators and technicians.

But even more shocking, from our mogul's point of view, would have been the recent goings-on at Harvard's Business School. There he would have found eighty-five company presidents—present-day "moguls" in charge of businesses grossing at least $1,000,000 a year (and many grossing much more)—docilely listening while a professor expounded on some basic problems in business administration. What, our business privateer might have wondered, has happened to the old-style entrepreneur, supremely confident that he knew all there was to know about running a business?

The advent of the concept of

mass production and mass distribution put an end to the old period of rugged individualism—"pull yourself up by your bootstraps and the public be damned." For, as private businesses became larger, profits got more and more entangled with the need to expand volume sales and create consumer purchasing power. And that created a host of new problems: problems of production, of transportation, of marketing and of advertising that only a highly skilled work force could handle. Engineering techniques and selling skills came to be more important to a company's annual profit-and-loss statement than gains from "sharp" deals.

Another factor forcing businessmen, often in spite of themselves, to place more emphasis on the intricacies of a "business education" was the depression—and the change it wrought in the public's attitude towards business. The businessman was transformed almost overnight in the public mind from a hero who could do no wrong to a villain who could do no right. When the crisis came, the average businessman was forced to admit that he was as much at sea about what caused it all as was the average man in the street. As a result, his reputation for economic omniscience was sadly shaken and so was his influence in shaping the nation's financial and economic policies. An expanding government, increasingly dominated by professional economists rather than by businessmen, greatly complicated the conduct of business. It also vastly increased the number of things in which the businessman had to be an expert.

THEN came the war, and with it a new challenge. The challenge was met splendidly. Our Gross National Product — the market value of the nation's output of goods and services—zoomed from $91,339,000,000 in 1939 to $215,-210,000,000 in 1945. Our national income shot up by more than 150 percent in the same period. Even more important, industry was able to keep on expanding although government expenditures were cut at the end of the war. Businessmen could feel self-satisfied.

And yet, for the last three or four years — years of unprecedented prosperity—there has been a good deal of worrying in some very high (business) circles. Technical and administrative positions at all levels, but particularly in the higher echelons, have become increasingly difficult to fill with properly qualified individuals, at a time when the need for trained personnel is greater than ever before. In the boom

period from 1944 to 1951, 3,163,600 new businesses, worth billions of dollars, were started. Of these, 68 percent had to be discontinued. Apart from the personal tragedies of shattered hopes and lost savings, we as a nation can ill-afford this waste of our resources. We simply must find the engineers and the others who will develop new products for our expanding economy. And we must find businessmen who don't overestimate markets and underestimate costs; who can handle stockholders, union leaders, government contractors and, if need be, even Congressmen.

WHAT HAS business done to meet this problem? Until recently, very little. The American Management Association has just come out with what is probably the most comprehensive study on management education in American business ever published. The study covers 5,250 companies, or 25 percent of all American businesses employing more than 250 people.

The results are not encouraging. Only 638, or 13 percent of the 5,250 covered, responded that they had management development plans. The survey makes this over-all comment on its findings: "If the influence of business supervision on the well-being and the attitudes of the citizens of a free society has the importance indicated in . . . this report, here is a consideration which suggests the need for action on a far more comprehensive scale than has yet been contemplated." Even more important, although the writers of the study apparently think this point so obvious that they do not even bother to mention it, unless business does develop such comprehensive programs, many corporations are going to find it increasingly difficult to survive the fierce competition of modern business life.

But what about those 13 percent who say they have management development programs? And, as far as the AMA study is concerned, a company has a plan if it says so. How do they go about developing management skills?

If there is any one point that stands out in the AMA findings, it is that there is no such thing as a standard program that applies to all industry. Some companies, of which Bell Telephone and General Motors are perhaps outstanding examples, have formal training programs which they administer themselves. Others, such as the Chesapeake & Ohio Railway and Westinghouse, have special arrangements whereby they send second-and third-rung executives back to college for ad-

vanced theoretical work in the latest developments in business administration. Many universities —Harvard, MIT, Columbia and New York, among others—have arranged special courses to meet specific industry requirements. Still other companies, probably the majority, while they have no formal training program, have devised carefully planned job-rotation programs designed to give their management personnel the broadest possible experience in all phases of company operations.

Of course, as every modern company knows, such training programs can be effective only if you hire the right man at the right time (when he's still young), for no amount of training can make up for a lack of ability and time to develop. The last twenty years have brought with them scores of standardized grading and testing devices that have taken a lot of the guesswork out of job hiring. While these tests are by no means foolproof, they are useful tools which give every job applicant an equal chance. Even so, many businessmen complain that the young men and women they hire have not received the training they will require for business success. The result, as more than one executive will tell you, is that industry has to spend a lot of time and money teaching what the schools should have taught originally.

For this, as Mr. Robert R. Young, no mean mogul himself, recently admitted, business must accept a large share of the responsibility. We have come a long way since Robert E. Lee suggested a business college back in 1865. Today there are more than six hundred colleges granting degrees in business and commerce, not to mention the hundreds of technical and commercial high schools spotted all over the country. But, as the AMA study points out, "the calling for which this preparation was designed—the American business as such—had very little to do with the launching of this experiment." Unlike such professions as law, medicine, engineering, etc., which keep a tight control over what is taught in their schools, business (to quote from the AMA study) "adopted the attitude that the educational institutions were individual suppliers and that its concern in the matter was limited to criticizing the goods supplied." Small wonder, then, if the goods did not always measure up.

There are definite indications that this period of aloofness is at an end. A recent poll of college presidents and industrialists conducted by the Industry College

Conference revealed that 50 percent of the reporting industrialists were members of one or more college boards of trustees and that 20 percent of the college presidents were members of one or more boards of directors. Even more significant, about 40 percent of the colleges participate with industrial concerns in work-study programs financed by business—about three-fifths in business administration. Stockholders are slowly being won over to the proposition that such endowments and gifts are not only smart tax-wise (Federal tax laws permit corporations to deduct up to 5 percent of their income for such gifts), but are a long-range guarantee for their investment.

But improving the educational background of our future managers is only one side of the coin. The other side, giving potential managers a chance to grow with each job, is much more difficult. Most companies very wisely put their major emphasis on carefully planned promotion and development programs designed to give their management personnel varied job experience.

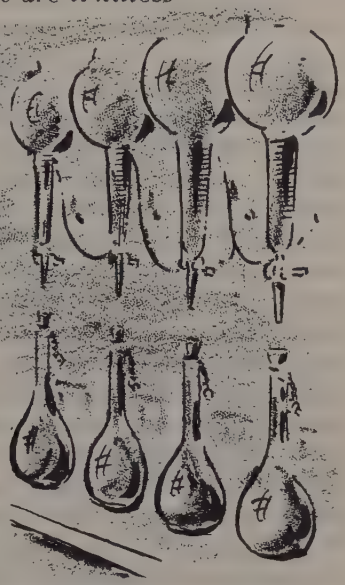
MOST of the larger companies—and only the larger companies can afford such extensive programs—admit that this is not quite enough to prepare a man (or woman) for positions of responsibility. Such positions often have no counterpart in lower-echelon jobs. This is particularly true of situations that involve no specialized knowledge, but do require a broad acquaintance with politics, philosophy and today's newspaper. And it is precisely this knowledge that the modern executive is often most deficient in because, as the AMA report points out, "he has nothing but education up to a given age—18 or 22 or 24—and does nothing about it thereafter."

It is to meet this need that an increasing number of companies are taking promising executives away from routine work for a period of advanced theoretical study (anything from six days to a year) while they are still under 35 but *after* they have had time to demonstrate their fitness for special treatment. The best example of such an industry-sponsored "sabbatical" is General Motors' policy of releasing young executives with eight to ten years' experience for a year at MIT.

But whatever method or combination of methods industry will finally adopt in its efforts to improve the calibre of its personnel, it is clear that this is a matter of concern to all of us. For our prosperity as wage earners and consumers depends on an efficient administration of industry. ■

Antibiotics make silkworms thrive, save orchards, help brew better beer, and look as though their new uses are limitless

New Markets for Wonder Drugs



IT IS NOT yet ten years since penicillin was released to the commercial market after being pre-empted for military use until 1945. Today we are living in the "antibiotic age," and the search for new wonder drugs goes on unceasingly. A short time ago it was suggested that anyone with a front or back yard might mail in a sampling of soil—so far the most usual source of the microorganisms that produce antibiotics —to the American Museum of Natural History to be forwarded to the drug company which discovered Terramycin.

Before city-dwellers hurry to spade up their window boxes, they are cautioned that Terramycin was produced from microorganisms found in a handful of earth from Venezuela—only after 100,000 samples of soil had been examined.

Overcoming disease is the great spur to this search, but today antibiotics are no longer restricted to curing human ills. They are finding applications in veterinary medicine and animal husbandry, agriculture and plant pathology, and in a variety of industrial fields. Wider use of antibiotics implies more than a continuing hunt for new ones. It is a strong impetus for research laboratories to scrutinize again the thousands of antibiotics they have come across and briefly examined while developing the two dozen or so now commercially produced.

On the average, about one in three samples of dirt will contain those microorganisms that can generate an antibiotic of some sort. Most of them are either too toxic or too weak for medical use and have been put aside on the laboratory shelf. But what would poison a man suffering from pneumonia might very well be able to keep fungi and molds from destroying the insulation of electric cables.

In 1952, the various antibiotics accounted for one-third of the domestic and foreign sales by American drug companies. At the manufacturers' level they were worth an estimated $314,000,000 in that year. Penicillin still leads the parade at $110,000,000 of the total sales and 45 percent of the bulk production of antibiotics.

Volume production, rising competition among drug companies, the discovery and marketing of other wonder drugs have all combined to bring the price of a pound of penicillin down to something less than a king's ransom. The manufacturers' price of the standard medical dose of 100,000 units—a pound of penicillin is over 544,000,000 units—plunged from twenty dollars in 1943 to seventeen cents in June 1948, and then to less than a penny by December 1952. Production has risen from fractional amounts in 1943 to 46,000 pounds in 1946, and to over 1,300,000 pounds in 1952 (the last year for which figures are available).

Since animals suffer from the same or similar diseases as does Man, it is not surprising that pet-owners and farmers began to demand antibiotics for their beasts when they learned of the almost miraculous cures effected by penicillin, et al.

What may surprise many is that 13 percent (by weight) of all antibiotics sold in this country last year were fed to farm animals. When used as feed supplements, they can improve the general health of farm animals, cause hens to lay more eggs, and put more meat on calves, pigs, chicks and turkeys in a shorter time. Even silkworms thrive and produce more silk if fed Aureomycin, plus enough extra nitrogen from the milk protein, casein.

The nutritional role of antibiotics was discovered by accident in 1949 when it was observed that young pullets grew at a faster rate when fed on the mash used to grow Aureomycin. Vitamin B_{12}, the "animal protein factor," had been isolated the year before and was known to exist in these fermentation products. It was assumed that B_{12} alone was responsible, until the same speedy

growth was seen in young pigs and calves fed on small amounts of pure penicillin, streptomycin, Aureomycin, Bacitracin or Terramycin.

New antibiotic-supplemented feeds remain within farmers' budgets since small quantities suffice. Something on the order of one-sixth to one-third of an ounce per ton of feed will do. In one experiment, 300 young hogs fed on a good ration reached market weight in 155 days, while 300 others put on the same ration plus an antibiotic were ready for market in 115 days. Their ultimate size was not increased, but feeding costs were cut remarkably, while the quickened growth did not run to fat.

The exact process that will explain this speed-up is not yet understood. It is suggested that the antibiotic suppresses intestinal microorganisms which compete for the animal's food, or that the antibiotic allows better utilization of food by controlling so-called sub-clinical diseases which do not show up as serious disturbances.

FURTHER research will also have to solve potential dangers in this use of antibiotics. One possible hazard is that minute traces of antibiotics sometimes appear in the meat of a slaughtered animal.

Human consumption of this meat might so sensitize some individuals that when administered medically the antibiotic could cause allergic reactions. However, experiments show that when the antibiotic is withdrawn from the animal's diet for several feedings, it does not appear in the meat (or in a chicken's eggs, if only the usual small amounts have been given). Even when an antibiotic was injected into a hen's muscle to a level 1,000 times greater than that obtained by feeding, all trace of the antibiotic was destroyed by proper cooking.

Agriculture offers a wide field for further research with antibiotics. Employing antibiotics to stimulate plant growth and to cure plant diseases has already shown promising results. Thus far, bacterial diseases affecting tobacco, tomatoes, peppers, peaches, spinach, walnuts, lettuce and potatoes have been controlled experimentally with Terramycin, streptomycin and thiolutin. Terramycin and streptomycin have been able to stop almost completely the most devastating of all fruit tree diseases, fireblight. This scourge wiped out the pear orchards of California fifty years ago, largely ruined the pear orchards of Ohio and narrowly restricts the varieties of apples that can be grown commercially.

Another new antibiotic, Oligomycin, has been shown to be quite effective against fungi causing plant diseases, while it is harmless to helpful bacteria in the soil. When sprayed on the ground at the plant's roots, Oligomycin is absorbed and spread upward by the plant's circulatory system. It retains its potency long enough to be completely absorbed by the plant.

IN THE food processing field antibiotics are still severely limited by the Food and Drug Administration because of their uncertain effects in sensitizing the consumer. However, one part of Aureomycin to a million parts of flake ice has been employed to preserve cleaned fish for shipment. In another instance, undesirable bacteria that contaminate brewers' yeast and cut beer production can be killed if fifteen parts of polymixin B are added to a million of yeast before the yeast is pitched into the fermentation vats. In this case, the antibiotic does not remain in the finished product; it is filtered out before the beer is bottled. Greater use of antibiotics in bread, milk, cheese curing and other food processing must await further experiments and FDA approval.

In industry the use of antibiotics, at first sight almost far-fetched, appears to offer a myriad of likely applications. Imported untanned skins for leather must be treated with strong solutions of bichloride of mercury to destroy anthrax spores that may be present. Antibiotics may be able to do the job more efficiently.

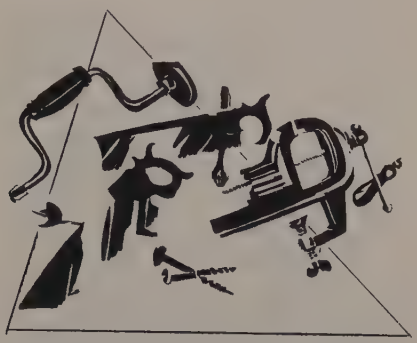
Textiles deteriorate rapidly under the assaults of molds, mildews and fungi. In the last war, uniforms and tents, despite impregnated protective solutions, grew rotten with mold in the tropical heat and high humidity of Pacific islands. Plastics and some synthetic fibers are also attacked by molds and bacteria, while fungi damage the insulation for electrical equipment as well as some paints and surface coattings. Certain antibiotics, now available only experimentally, show promise as inhibitors of these organisms.

THESE ARE still only possibilities, though very active ones. In animal husbandry, and now in agriculture, the commercial use of antibiotics is definitely established. In industry, research and development explore dozens of fields. It is not improbable that the production of antibiotics for commercial and industrial exploitation may one day equal and exceed their production for use in medicine. ■

How a Pennsylvania farmer bent on courtship backed into a career as a national jobber in secondhand equipment

From a Surprise Load of Grindstones

by Bob Corrigan



THIS IS the story of a man who, through a slight misunderstanding, literally "backed" into a specialty hardware business and was smart enough to make a buck out of it.

Our story begins in 1929. The hero is Worth Smith, 37, who at the time operated a 200-acre farm just outside Farmers Valley, Pa. He was due at his fiancée's home in Binghamton, N. Y., and he was low on money for the trip.

But first his workshop needed an emery wheel. A toy factory which was moving out of nearby Smethport announced that it had a few for sale, so Smith went to get one. The factory manager and he agreed on a price of three dollars. The things weren't selling anyway. Nothing was in late '29. "Okay," the man said, "back up the truck."

Smith wondered why he had to back up for one little grindstone, but nestled the truck against the ramp anyway. To Smith's surprise, the vehicle was loaded with all the emery wheels in the place. "Take 'em away for three dollars!" the manager said.

Figuring the grinders might serve to pay his way to Binghamton, Smith loaded some of them into the back of his car and started off a-courting. It took two days to travel the 200 miles to Binghamton, but on the way he made $120 peddling his wares to blacksmith shops, machine shops and factories. "Golly," he thought, "it looks like a business."

The young lady accepted his excuses. When she married him she knew he would have to travel a

---

Bob Corrigan, free-lance writer, resides in Smethport, Pa., a little town in northern rural McKean County.

bit, but she didn't foresee seventeen years of it. Anyway, the trips were short at first.

Near home again in Bradford, Pa., Smith tried selling his emery wheels to the biggest factory in town. The response: "How about letting us sell *you* something?"

Ten years earlier, the company had bought a supply of World War I surplus, and had not tried to do anything with it until it was too late. Its warehouse was crammed with thirty-eight tons of hammers, forges, handsaws, chisels, drills, auger bits, pick handles —even tea strainers.

Smith thought the stuff might move so he made a deal to handle it on a commission basis. He fixed up a van as a traveling salesroom and started across Ohio. But the prices set by the company were not low enough. He had to return the consignment to Bradford.

Winning agreement to buy a load at a time and market it himself, Smith set a policy which has worked ever since:

Take on anything you can sell, in any volume which affords a rock bottom price, move it to where it is needed, and let it go for cash at less than wholesale.

By keeping an eye on wholesale quotations he has always made out with a quick turnover and no fixed markup. Often he retails at half wholesale.

He soon bought out the Bradford warehouse because by whittling down the miscellany as it came to hand, he made it easy for other jobbers to pluck the rarest bargains. It took all the credit he had but it furnished enough stock to fill his barn and spread his effort from Maine to Michigan to Florida.

Since that original stock sold out, Worth Smith has handled a world of heavy equipment: tackle blocks, chains at ten pounds or more to the foot, wrenches by the crate of 7,500 pounds each, a carload of Revere copper pots when the company changed models.

It hasn't all run smoothly since the day of the emery wheels. One lot of 1,100 washing machines, specially made for a dealer who went broke, failed to fit in with Smith's clientele of workshops and small retailers. After ten years he got some of his money back by selling them to Sears, Roebuck.

Worth Smith now does a business of $50,000 a year—a fraction of his peak volume. But he gives more time to the hobby that has grown as a by-product. He and his wife have gathered a magnificent array of Chinese and Japanese jade, bronze, porcelain, silks and prints, Wedgwood china (including Queen's Ware), American brass clocks and inlaid cabinet work. ■

Could a visitor from another planet find his way between the terms "socialism" and "capitalism" by watching our economy at work?

The Mixup in Economic Talk

By Stuart Chase

Stuart Chase, an economist who has been branching out into the study of communications and of the social sciences as a whole, is the author of such works as "The Tyranny of Words" and "The Proper Study of Mankind."

BEFORE the laws of thermodynamics were developed, many inventors busied themselves with perpetual-motion machines. In 1660, the Marquis of Worcester contrived a wheel fourteen feet in diameter, rigged with forty sliding weights of fifty pounds each. Even Leonardo experimented with quicksilver to turn a wheel forever. But by 1775 the Paris Academy of Sciences refused to accept any more schemes for *perpetuum mobile*. Physics had advanced to the point of proving their impossibility.

Unfortunately economics is still plagued with perpetual-motion machines. Every man is still free to propound his own economic plan to save the world. A major difficulty is that economics is so completely interwoven with human behavior that reliable theory cannot be formulated unless the economist takes both psychology and anthropology into account. Thorstein Veblen, Wesley C. Mitchell, John Maynard Keynes, a few others, have been aware of this; but most economists have stubbornly held to prescientific assumptions about human behavior. . . .

Ideologists have had the field, and the average citizen has failed to get a workable map of the economic territory, either present or past. With some justice he has called economics the dismal science. Linguistic difficulties have made the map even more inaccu-

Excerpted from "Power of Words," Copyright 1953, 1954, by Stuart Chase. Reprinted by permission of Harcourt, Brace & Company, Inc.

rate by personifying abstractions, especially in the form of an absolute "Capitalism" opposed to an absolute "Socialism," with no intermediate points of view allowed. . . .

The war between these two words is perhaps the greatest verbal block in the world today. Do you devoutly believe in "government ownership" or in "free enterprise"? No middle roads, no compromises are recognized in this war. Yet the actual space-time world is full of middle roads, halfway measures, compromises, whether in the West, or in Russia itself. People in factories, offices, shops, are carrying on day by day in ways which bear no relation to the two-valued talk. But the talk cannot fail to confuse their day-by-day acts and hinder needed corrections. We may blunder into them, as we blundered into the "New Deal" reforms. More often we lose our way in a morass of dogma. "Which side are you on?" asks a left-wing song, and to millions of people on either side, that is all that matters. . . .

THE CLOSER one looks at economic realities today, the clearer it becomes that both "Socialism" and "Capitalism" are old-fashioned concepts, useless to explain what is taking place. An intelligent visitor from another planet would be unable to make head or tail of them. Terms like "Wall Street profiteers" and "Creeping Socialism" can generate plenty of heat but no enlightenment. The world of tangible behavior is moving into a new and dramatic dimension, which the old words cannot describe or explain.

What, for instance, can the standard theorists, right or left, make of the economy of Puerto Rico? I have studied it at first-hand and found a situation calculated to drive either a "Capitalist" or a "Socialist" to despair. An American engineer, long in residence, summed it up for me soon after my arrival:

"They haven't any ideological principles, or if they have, they don't show. Their only commitment as far as I can see is the well-being of the whole island. They are not tied up in either Marxian or free-enterprise strait-jackets. They can think without looking it up in the book; they are flexible and mentally free to think out what needs to be done. If business can meet a need, fine. But if business cannot, then let the government do it, or a co-operative, or a nonprofit association. The main thing is to get it done. They have achieved what you once called 'ideological immunity.'"

This is the more surprising

because when Governor Luis Múñoz Marín came into power in the early 1940s his party was frankly socialistic. No good Socialist trusts businessmen, any more than good businessmen trust Socialists. The first reforms were along doctrinal lines. Government corporations were set up to operate new projects in both agriculture and industry. The object was to shift from a one-crop sugar economy to diversified agriculture plus diversified light industry.

It was clear, too, that certain essential utilities and services could not be organized at all unless government set them up. The island government could borrow money more cheaply in the States; private business feared to take the risks. In addition to power plants and water systems, five industrial plants were built and operated by the government—cement, clay, glass, a shoe factory, a paper mill.

Before long the program ran into difficulties. Some of the agricultural corporations were badly managed, and losses continued in four of the five industrial plants. Only the cement mill showed a profit. One trouble, of course, was union labor. A socialist government is supposed to be on labor's side, which gives the unions heavy leverage in all managerial decisions. Collective bargaining becomes a feeble instrument to protect the interest of consumers.

As the impasse was reached, strange things began to happen. The Governor and his economic staff, instead of standing on their socialist principles, sold the five manufacturing plants to private business. The Ferré interests, who bought four of them, were the leading industrial group on the island, and had long experience in dealing fairly with union labor. They put the factories on a paying basis. The government used the $10,000,000 received from their sale to build hotels, factories, shops, for lease or sale to other businessmen. When these properties were sold in turn, the government reinvested again—and went on repeating the process as a means of bringing new industry to the island.

As far as I could determine, this move toward cooperation with businessmen was the result of direct experience; no theories were involved. The Governor and his staff did not rush from the bosom of Karl Marx to the bosom of Adam Smith—after the fashion of a number of American intellectuals in recent years. No. After some harsh administrative experience, the top command was flexible enough to move with the facts, while never for an instant

losing sight of its goal, the economic well-being of the island. They cared more for Puerto Rico than for dogma. Perhaps some of the staff found it painful to discard their ideology, though no one mentioned it to me. Perhaps some retained their fear of "wicked capitalists" and "profiteers." I found many of the staff, however, busily entertaining the wicked capitalists, taking them around to factory sites, and showing them how to make more money.

Under this treatment, local businessmen in the island, and even businessmen from the mainland, began to build up ideological immunity. They lost their fear of the wicked "State," and came to look on government men as their friends rather than a nest of bureaucrats determined to tax them to death. The remission of taxes on new enterprises for ten years also contributed to a tolerant point of view.

I asked Luis Ferré, whose firm had bought the government plants, where he thought the line should be drawn between government and business. This is his reply:

"We can produce cement more cheaply than the government and outsell our competitors all over the Caribbean; but the government must take the risks of launching new enterprises at this particular time in Puerto Rico. After they are fully launched, the government should not try to operate them indefinitely, but should allow business men to have the headaches and make the decisions. I think the government should get out of the municipal telephone business, but it is doing a good job with slum clearance and housing. It should provide most of the utilities — power, water, drainage, transportation. It should build more schools and hospitals but fewer baseball parks. . . ."

EVERY modern economy, whatever the talk, is a mixed dish—with government ownership stewed up with private ownership, garnished with labor unions, cooperative societies, resale price maintenance laws, and huge nonprofit organizations like colleges, churches, and foundations. . . .

Fortunately some new economic theory is being developed to fit the new economic facts of middle roads and mixed economies. J. K. Galbraith, in his arresting study of the American system, *American Capitalism*, succeeds in bringing map and territory into reasonable agreement. Socialism, far from a growing menace, is old hat, he says, while the free market of the *laissez-faire* classicists is pretty well buried under the technology

of mass production and mass distribution. A monopoly of national power by organized labor is extremely improbable, especially after the revealing experiences of the Labor government in Britain.

What the United States now enjoys in effect, says Galbraith, is an economy based on the principle of "countervailing power," where five great institutions strenuously interact, compete, and limit each other's ambitions. If one of them gets too far out in front, the other four unite to drag it back. The five are:

1. Big business — primarily mass production.

2. Big distribution — the chain stores, mail-order houses, the great department stores.

3. Big labor—the A. F. of L., C.I.O., and the Railway Brotherhoods.

4. Big agriculture — including the farm lobby.

5. Big government — swollen through the advance of technology, and by reason of wars, hot and cold.

If big business raises its prices too high, it will run into pressure from large distributors threatening to set up captive plants; into pressure from government threatening antitrust suits; into angry farm organizations and angry unions. If labor leaders play fast and loose, businessmen, farmers, and government will combine against them; and so on, for all five power centers.

Few Americans understand this pressure game. It is new, and it does not fit the accepted stereotypes. There is no "side" to be on; and two-valued judgments give way to a five-valued situation. The theory of countervailing power goes a long way to explain the economic stability of America in recent years. Older theories, by contrast, could not explain it. Galbraith has set a pattern of the kind of mature, objective thinking we should expect from our economists in the future. . . .

In the age of the atom, superimposed on the age of the machine, we need flexibility to survive. There is no flexibility in dogma which says that business is always "bad," and government is always "good," or vice versa. The crucial question is who can do what needs to be done. ■

Defense Production and the Standard of Living

BECAUSE THE United States has a very rich economy, we can use indefinitely 15 to 25 percent of the total national production for defense—if we have to—without seriously affecting our standard of living. —*Twentieth Century Fund*

From the Rostrum

Excerpted from a recent address by G. Keith Funston, President, New York Stock Exchange, before the Association of Stock Exchange Firms, in New York.

by G. Keith Funston

Should Savers be Penalized?

Thrift and the application of savings to constructive ends must be constantly encouraged if future growth is to be maintained

POLITICAL cartoonists of the past liked to depict the working man—the producer—in overalls and a cap, while they showed the investor, or saver, in frock coat and top hat. The consumer generally wore a business suit and derby. Few of us here have those three hats on the closet shelf—I know I haven't—yet almost every American today can boast, figuratively, of wearing the producer's cap, the saver's top hat, and the consumer's derby.

The working man today labors for his bread—and also for a fur coat for his wife, or a new television set, and he manages to save something on the side to put Junior through college. His real wages have risen to the point where the man on the production line is now important to our economy as a saver as well as a producer and consumer.

Our standard of living today is due, of course, in large part to our natural resources and to our modern and efficient industrial machine. These natural resources have been developed by the investment of past savings. Our plants and equipment have been provided by similar investment. As surely as our high standard of living today is based on yesterday's savings and investment, so our standard of living tomorrow will be determined by the savings and investment of today.

Before we consider where all this money will come from, let's take a look at present savings in America.

TODAY, there are an estimated 90,000,000 owners of life insurance policies, not counting government insurance. Some 53,000,000 individuals have savings accounts and 43,000,000 persons own Series E Bonds. Ten and a half million Americans are covered by private pension plans—and share owners total 8,500,000, 6,500,000 of whom own stock in publicly owned corporations.

In total, an estimated 90 percent of all families in this country, represented by 122,000,000 individuals, have some form of savings or investment. Current savings are running at record peacetime levels—about $18,000,000,000 a year. This is clear evidence that the average American is wearing his top hat more often today then ever before.

Yet the *saver* in our economy has been America's forgotten man. The tens of millions who have chosen the promise of security as offered by savings accounts, bonds of all types, or life insurance policies, have watched their purchasing power devastated by the inroads of inflation.

From 1945 to 1952 the owners of life insurance suffered a loss in purchasing power of $81,000,000,000 on the face value of their policies. This loss was a serious blow to millions of Americans for whom life insurance must provide the cornerstone of financial security.

Also, since World War II the loss of purchasing power suffered by the holders of savings accounts and other time deposits was more than $21,000,000,000.

Now, how about the more than 8,500,000 savers who have chosen to invest in ownership securities such as common stocks? How have they made out?

SINCE stock market averages have generally kept pace with the rise in the cost of living, it would appear on the surface that equity savers had not suffered materially from inflation.

No investor, however, can buy the stock averages. He buys individual securities, the prices of many of which have not kept pace with inflation.

Furthermore, an investor who selected an issue where price has kept pace with inflation finds that when he sells, even though he is no richer in purchasing power, he is faced with a capital gains tax which will take away up to 25 percent of his gain.

The income of the equity saver has also not kept pace with that

of certain other segments of the economy. In the fourteen years since 1939, dividends have declined from 5.2 percent of national income to 3.0 percent, a drop of more than two-fifths.

What has been the effect on our economy of this neglect of the saver, particularly the discrimination against the equity saver? Admittedly, it has not caused the nation's house to collapse. Since World War II we have financed the greatest capital expansion American industry has ever had. But the foundation of the house is not as strong as we might desire, because new stock issues have played only a minor part in this capital formation. For every dollar raised in the postwar period by stock issues, industry raised nearly $3.50 by debt financing, and supplied $9.00 from retained earnings and depreciation reserves. To provide these capital funds, industry found it necessary to double its debt and to reduce the percentage of earning paid out in dividends from over 75 percent before the war to less than 50 percent today.

It should be pointed out that it is only established enterprises that have been able to finance expansion through increased retention of earnings and greater debt financing. New and growing businesses have found it extremely difficult, if not impossible, to obtain the new equity capital necessary for growth.

The shortage of equity capital in the postwar period is evidence that, in a free economy, capital flows into forms of investment where the reward is commensurate with the risk. It is axiomatic that adequate incentive for production, for consumption, and for investment are all essential to the proper functioning of a free economy. Take away the carrot and the donkey will sit down. Hold down real wages and the producer will balk; set prices too high and the consumer won't buy; tax incentive away and the investor will seek other avenues of investment.

CONTINUED economic progress makes it imperative that the incentive for equity investment be restored.

The amount of equity funds required in our economy will far exceed the tax-devastated resources of higher-income Americans who have historically supplied the bulk of new equity capital.

New sources for such funds must be developed among the millions of Americans of middle income.

This then is the challenge, and the opportunity, before us — to restore incentive for equity in-

vestment and to tap new sources of such funds. The securities industry is ready, willing and able but needs assistance to do the job properly. We ask for no special favors. We do ask, however, for a square deal—for tax changes which will recognize the importance of the saver.

A serious deterrent to the saver considering investment in ownership securities has been the double taxation of dividends, first by taxation of earnings at the corporate level and, second, by taxation of dividends paid to shareholders out of the corporation's after-tax earnings.

This taxation is probably the most discriminatory feature of our tax laws, applying as it does only to dividend income from ownership securities. It strikes directly at the corporate form of business ownership, the one form of ownership offering the greatest opportunity for small savers to share in America's growth.

THERE are two totally false concepts about double taxation which must be eliminated if the problem is to be viewed objectively. The first fallacy is that relief from this tax is some sort of giveaway to stockholders who will be receiving tax-free income. Such a statement avoids the heart of the problem. The salient fact is that dividend income has already been taxed once — and at very high rates—before it gets to the shareowner. To permit what remains after taxes to be received by those owners without imposing a second tax is definitely not a giveaway—it is only simple justice.

THE second false concept is that relief from double taxation would benefit only the wealthy. This is just not the fact. American share owners number 8,500,000. *All* these people will benefit and they represent a true cross-section of America. Thirty-two percent of them have family incomes under $5,000 a year and 76 percent under $10,000. Hundreds of thousands of them are retired people living on the income from invested savings, over 25 percent of all stockholders being over 60 years old. The lower income group would enjoy a large percentage benefit. For example, the current proposal of the House Ways and Means Committee would, by 1957, relieve the group of shareholders having incomes under $5,000 of 78 percent of the tax on dividends which this group now pays.* Legislation providing partial relief from double taxation of dividends will greatly encourage modest in-

* The U. S. House of Representatives has since passed amendments to the Internal Revenue Code, allowing limited credit on dividend income.

vestment in common stocks by millions of new investors. The present proposals, for instance, would provide complete relief in 1955 from double taxation for a couple investing up to about $4,000 in common or preferred stocks. Multiply this sum by the millions of American families who are financially able to purchase stock and are responsive to financial incentive, and we will open up a vast new pool of needed ownership capital.

ANOTHER of the taxes which does much to shackle the saver's will to venture is the capital gains tax in its present form. This levy penalizes the saver who risks his funds in equity securities and keeps our free markets from making their maximum contribution to the flow of capital into industry.

A cut in the required holding period to three months is one major step that can be taken to restore needed liquidity to our capital markets.

Reduction of the holding period would not be a tax reduction measure, but would increase Government revenues by encouraging transactions which just do not take place at all today. It is estimated that a cut in the holding period to three months would increase the take of the Treasury from this tax by several hundred million dollars per year.

A substantial cut in the rate of tax would likewise increase Governmental revenue by lowering the barrier which now blocks most investors from selling securities that have appreciated substantially. Here again the Government would benefit from getting a higher total tax revenue from a greater number of transactions.

Available Treasury figures indicate that the capital gains tax, as well as double taxation, is a tax which affects people of moderate means as well as the wealthy. Figures for 1950 show that 42 percent of all income tax returns reporting capital gains showed a taxable income under $5,000 and 74 percent of such returns were from persons with incomes under $10,000.

While changes in our Federal tax policies can provide a major stimulus to the flow of savings into ownership capital, the task of actually obtaining such funds through broadening the base of corporate ownership must fall primarily on the securities industry. It is my firm belief that our industry can do much to encourage the growth of one of the most powerful ideas of our time, Democratic Capitalism—the ownership of our means of production by more millions of Americans.

This challenging concept of public ownership of industry — not through government but through individual investment—includes a broadening of corporate ownership not only through the addition of millions of new owners but also by increasing the holdings of today's small investors.

The objective of the entire investment community should be the ownership of a share of American business by every American who is financially able to assume the risks of common stock investment. To achieve this goal it will be necessary for the securities industry to put even greater emphasis on serving all investors, and to seek and utilize new techniques such as the Monthly Investment Plan, a program especially designed by member firms of the New York Stock Exchange for obtaining greater participation in equity investment by individual savers.

We think that the pay-as-you-go idea may make it possible, over a period of time, for hundreds of thousands of new investors to own common stocks.

We must, of course, remain fully cognizant of the responsibility of carrying out such a program. This involves the education of millions of American savers to the risks as well as the rewards of common stock investment. The importance of adequate liquid reserves for emergencies as a prerequisite to stock investment must constantly be stressed, as must the necessity of obtaining full and complete information from a reliable source before investment.

IF OUR economy is to achieve even greater miracles of mass production and mass consumption, we will need a constantly increasing base of equity investment. We will need to bring about mass investment—to rank it alongside mass production and mass consumption, so that production, investment and consumption are equally shared by all of our people.

In seeking this goal, Government can contribute by giving us more realistic tax laws. The securities industry can gear its machinery to the needs of the small investor. The saver, himself, can contribute by acquiring a better understanding of his indispensable role in our economy. If each of the three groups, Government, the securities industry and the saver, will work together, we can create for our nation an economic democracy, as pervading and as potent as our political democracy, an economy in which most every American family can have a direct ownership stake in the dynamic future which lies ahead for our country. ■

From the Bookshelf

THE FRONTIERS OF ECONOMIC KNOWLEDGE, *by Arthur F. Burns. Published for the National Bureau of Economic Research by Princeton University Press. Princeton, N. J. $5.00. 366 pp.*

Reviewed by Harold F. Clark

Frontiers of Economic Knowledge

The President's chief economic adviser reveals his thoughts about what makes the economy tick—on beat and off

WHAT KIND OF advice will be given to the President of the United States in regard to the causes and cures of depressions? How much should our economy rise and fall in output? Is it better to have it growing rapidly even if the rapid growth tends to bring some instability? Or would it have been better to have stabilized the economy 100 years ago at a $200 annual income and have had stability and very little growth?

We have an organization in the United States that has been studying the factual background of such questions for a generation. In recent years, Arthur F. Burns has been the director of research of this organization, the National Bureau of Economic Research. More recently, Dr. Burns has been appointed chairman of President Eisenhower's Council of Economic Advisers. We can get a great deal of light on what kind of advice Dr. Burns will give by turning to his new book *The Frontiers of Economic Knowledge.*

There are those abroad in the land who think that all you have to do to cure any minor drop in business conditions is to run a large Federal deficit. Burns is very skeptical of this Keynesian position.

Dr. Burns thinks J. M. Keynes

Dr. Harold F. Clark, economics consultant to CHALLENGE, *is a Professor of Education at Teachers College, Columbia University.*

made basic errors in his assumptions regarding the desirability of government deficits. Keynes, according to Dr. Burns, thinks that investment opportunities are limited in a mature economy. Consequently private investment in our economy will be at a level too low to provide full employment. It follows, according to Keynes, that the thing to do is to put more money in the hands of consumers by running a government deficit.

DR. BURNS first deals with some of the Keynes assumptions on a factual basis. He raises the issue as to whether America has become a stagnant nation. Some rather dramatic figures are given for the increase of manufacturing output. This output rose 58 percent from 1899 to 1909; 41 percent from 1909 to 1919; 64 percent from 1919 to 1929. In the next decade, the decade of the 1930s, these remarkable advances came to an abrupt stop. Output rose 3 percent; while population rose 7 percent.

Of course, output started up again in the 1940s and 1950s. Why did growth stop in the 1930s? The disciples of Keynes said it was because growth was over; we were mature and would grow no more. Today, that doctrine sounds a little silly but it was widely believed in the 1930s and was a central plank of the Keynesian assumptions. We know now that the American people indulged in activities in the Thirties that temporarily stopped our growth for the first time in history. We certainly do not want to make those mistakes again in the 1950s.

Dr. Burns makes it abundantly clear that Keynes' theories do not fit the facts. He states that "Since Keynes works with an artifically simplified business cycle, it is not surprising that his explanation collides with the facts of experience." Dr. Burns shows that business cycles are much more complicated than many people think. He states that the conception of the business cycle as an expansion of *all* economic activity followed by a contraction is not drawn from life. He makes it abundantly clear that some industries are expanding even at the bottom of a business cycle, and some are contracting even at the top. Business is a very complicated matter.

DR. BURNS has some interesting comments to make on trying to forecast the conditions of business. He remarks that practically every forecasting device ever suggested has *occasionally* proved successful. He also makes it clear that no device or combination of devices has as yet been able to

make consistently good predictions of changes in business activity over any long period of time. Dr. Burns makes it abundantly clear, however, that the question is not whether we should make predictions, because they *must* be made. The question is whether to try to base the predictions on the best evidence available regardless of how inadequate they may be.

Dr. Burns points out that there is a widely held assumption that business depressions are getting worse and worse. He finds no support for this in the statistical record. In regard to the depression of the 1930s, Burns makes the revealing observation that "every decade up to the 1930s registered substantial improvement. During that decade per capita income fell appreciably below the level of the 1920s; nevertheless it was higher than in any other decade, and about two and a half times as large as in the 1870s."

This is an extraordinary fact to keep in mind. It is quite true that for the first time in our history we stopped our growth in the 1930s. On the other hand the economic world did not collapse. If we slipped from the high levels of the 1920s, we came to rest on a plateau where per capita income was still almost two and a half times as large as it had been three generations earlier.

Dr. Burns also presents a remarkable picture of what has happened to the total goods and services produced in the United States over a long period of time. He shows that between 1869 and 1938 the total output of the American economy amounted to $2,800,000,000,000 (two trillion eight hundred billion). Of this huge total, the flow of commodities and services to consumers accounted for fully 90 percent, and even this figure would be raised 2 percent if residential buildings were classified as consumer goods. The remaining 8 percent went to provide all of our new industrial plants, our business structures and public improvements, additions to inventories and additions to claims against foreign countries. To put it another way, consumers got 92 percent of everything produced over this very long period of time.

Some people tell us that we would be better off if the consumer had 98 percent or 100 percent. It is certainly hard to see how we could have progressed if, at the beginning of this period, the consumer had taken 100 percent of our production and nothing had been left for capital growth and expansion. If this single figure could really be grasped and under-

stood by everybody in America, many a speech in Congress and over the radio would never be made; many a law would never be introduced.

Dr. Burns also comes up with another very remarkable observation when he says that savings remained a nearly constant fraction of the national income decade after decade before the 1930s. Now, Keynes assumes that as incomes get larger, people save a larger fraction of them. Consequently, he assumes that as all incomes get larger, all people will save a larger fraction of their incomes. The results, according to Keynes, will be that savings get much too large, and people do not buy enough to absorb what is produced. Burns makes it clear that the facts do not support Keynes.

Some extraordinarily important comments are made regarding the expansion of service occupations in our economy. Dr. Burns says: "Treatises on economic theory continue to be written as if manufacturing . . . were the only occupation of consequence. . . . Much the same emphasis is found in journalistic writings, government policies and even official statistics. But if technological progress in the commodity-producing industries continues at anything like the present pace during the next half-century, will not the service industries soon become the primary source of employment?" This is a very interesting question to raise. During the early part of this year great attention was paid to a decline in manufacturing output and to manufacturing employment. The total national income seemed to be reasonably steady at the time. Most fields of employment other than manufacturing were at a fairly satisfactory level. Yet these figures in other fields were largely ignored and the public and press concentrated on the decline in manufacturing.

Dr. Burns has some interesting comments to make on the drop in government expenditures at the end of the second World War. "By the first quarter of 1947 federal purchases were down to an annual rate of $16,000,000,000, a drop of $75,000,000,000 from their peak rate. National income had risen slightly so that the rest of the economy fully compensated for the unprecedented reduction in governmental spending." Most of the so-called experts predicted this transition would be impossible and that the drop in government spending would produce staggering unemployment. Of course that did not happen.

Many students have long held

the opinion that economic declines are caused in large part by economic excesses of an earlier period. This position is supported when Dr. Burns says that "the figures I have cited on the contractions of the interwar period reinforce the judgment, long entertained by observers of economic conditions, that the causes of varying degrees of severity of business contractions are to be sought primarily in the developments that precede them, rather than in the fresh complications that crop up while the contractions are in progress." The excesses of one period may well show up as part of the cause of trouble in a following period.

"Just as the military often find it helpful to draft plans for resisting different potential aggressors, each or a combination of whom may strike at this point or that, so an economic staff may in the future find it prudent to work concurrently on plans for meeting a great variety of economic troubles that we loosely call booms and depressions." When Dr. Burns wrote these words, he probably did not realize that in 1954 he would be at the head of that economic general staff helping to make plans for the variety of problems. The wisdom with which these plans are made will have much to do with the welfare of all of us.

The Frontiers of Economic Knowledge is a careful and reasonable statement of the limits of our knowledge about the causes and cures of depressions. Among the many things that can be learned from the volume is that running a Federal deficit is not an adequate way for dealing with a depression. We probably could eliminate depressions, but many of the methods for doing so probably would stop economic growth. We do not want to end our economic progress. There are still great possibilities for economic growth and development in this country. We unfortunately managed in the 1930s to stop our growth for the first time in our history. Savings and capital development take only a very small part of our economic effort since 92 percent of our total production has been going to consumers. Business cycles are extraordinarily complex and varied. Many different approaches have to be used in order to deal with them effectively. These and many other important issues are investigated in this volume.

IF YOU want to know what the President of the United States is being told about the way to deal with a recession, one of the best ways to find out is to turn to *The Frontiers of Economic Knowledge.* ■

ECONOMICS IN ACTION

(Cont'd from page 2)

appliances, etc., which Congress passed in an effort to spur lagging retail sales, have resulted in only a mild improvement despite price cuts. And a revised Federal Reserve estimate of consumer spending plans indicates that Americans are watching their pocketbooks more closely than they did in 1953. More income tax reductions might not put enough cash into the consumer's pockets quickly enough to boost immediate purchasing power. Most taxpayers would feel such reductions only in small doses from reduced withholding on paychecks. And that would not spur more buying for quite some time.

Basically, the only way to get the consumer to spend more is to make him feel secure in his job. That is why the Administration is putting such a lot of emphasis on more rapid tax depreciation for capital-plant investment, reduced tax rates for dividend income and easier credit terms on business loans. More investment, it is believed, will boost production and create more jobs. The alternative: more Government spending.

Two of our Allies have passed sweeping tax reforms designed to stimulate productivity and increase investment:

Germany has announced tax cuts that will arouse envy among American taxpayers. Income taxes are cut by as much as 41% in the very lowest and in the very highest tax brackets to stimulate purchasing power and investment. Corporation taxes are sliced from 60% to 45%. One reason why Germany can do this is that her Government does not have to finance rearmament which accounts for almost half of the bud-

gets of most NATO countries. Another reason is Germany's sensational economic recovery (her industrial production has zoomed 200% since 1948) which assures her of adequate revenues.

France has also passed a tax reform bill -- her first since 1936 -- in an attempt to encourage productivity and investment. Personal exemptions have been raised so that about half of France's wage earners won't pay any income tax. Penalties for tax evasion will be stepped up and many French officials believe that this alone might provide the Government with enough revenue to counteract the tax cuts.

These tax reforms should make both France and Germany more independent of U.S. production -- unless huge budgetary deficits develop.

The Department of Better Mousetraps: a water sprinkler which can be set to operate for any period, but which will stop for a "suitable" period after sufficient rainfall . . . a chewing gum manufacturer has developed a denture which won't stick to chewing gum . . . a golf ball which, according to the manufacturer, will travel 10 yards farther than any now on the market . . . a solution which will clean, deodorize, de-flea, de-itch and bacteria-curb your dog or cat in one operation . . . a new electronic range that will bake your cake in three minutes . . . a super bee which can collect three times as much nectar as the ordinary bee . . . a sound recorder that will register four conversations on a single tape and then unscramble them so that they can be heard individually . . . and, finally, a boon for owners of convertibles: a device that automatically raises convertible tops at the first touch of a drop of rain.